



**LIQUOR  
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BRANCH**

**BC LIQUOR DISTRIBUTION BRANCH**

**2014/2015 Third Quarter BC Liquor Stores Audit Summary Report**

**January 30, 2015**

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## Executive Summary

This report provides the detailed audit findings for the 12 BC Liquor Store (BCLS) audits performed in the third quarter of fiscal 2014/2015. The audit procedures performed included a count of on-hand liquor and store cash, a review of Imprest and Litter records, an inspection of pin pad devices, visitor logs and appropriate debit/credit receipt storage for PCI compliance. In addition, the quarter three cycle count completion records for all BCLSs were reviewed.

Relative to the average results from the three previous fiscal year quarterly results (2011/2012, 2012/2013 and 2013/2014), the fiscal 2014/2015 third quarter results are higher in all performance measures noted in the table below.

	FY14/15 Q3 Results	Quarterly Average Based on FY11/12 to 13/14 Results
<b>SKUs</b>	s.17	s.17
Adjusted % Adjusted		
<b>Inventory Overages (\$)</b>		
Adjusted % Adjusted		
<b>Inventory Shortages (\$)</b>		
Adjusted % Adjusted		
<b>Inventory Overages (Units)</b>		
Adjusted % Adjusted		
<b>Inventory Shortages (Units)</b>		
Adjusted % Adjusted		
<b>Cash Variance</b>		
Variance % Variance		

The cycle count monitoring data obtained for quarter three shows that the average percentage of SKUs counted during the quarter was 64% (stores are expected to count 100% of SKUs each quarter). Furthermore, 27 stores (14%) counted 100% of SKUs during the quarter of which 12 were attributable to counts performed by Internal Audit. If these Internal Audit counts are excluded, only 15 stores (8%) achieved the quarterly target of counting 100% of their on hand inventory.

Other findings identified during the third quarter audits of 12 stores included:

- gift cards were incorrectly included in inventory at three stores (page 19);
- s.17
- Imprest account issues were identified which included:
  - excess on-hand Imprest cash due to unpaid coin orders at two stores;
  - a continuity break of 50 cheques and two blank signed Imprest cheques identified at one store;
  - s.13,s.15,s.17
- daily Litter counts were executed 92% of the time but s.15,s.17
- PCI compliance was adhered to for visitor logs and credit and debit card slip record management for all stores but one store had one pin pad which was missing a shield (page 21).

## Objectives

For each of the 12 BC Liquor Stores (BCLS) attended during the period the key engagement objectives were to obtain information regarding:

1. on-hand inventory at the fieldwork date in relation to the store's inventory per the RMS perpetual inventory sub-ledger;
2. on-hand cash at the fieldwork date in relation to the approved general ledger balance;
3. adherence to quarterly cycle counts of 100% of inventory;
4. the appropriateness of and support for the current period's Imprest transactions;
5. management of Litter; and
6. adherence to select PCI standards.

## Scope & Approach

The 12 BCLSs attended during the period were visited between October 2 and November 9, 2014 and included the following locations (audit engagements #19-30):

Audit #	Store #	Store Name	Regional Manager	Audit Fieldwork Date
19	s.17		1	2-Oct-14
20			8	5-Oct-14
21			8	16-Oct-14
22			8	19-Oct-14
23			1	20-Oct-14
24			9	22-Oct-14
25			5	27-Oct-14
26			5	28-Oct-14
27			5	29-Oct-14
28			5	30-Oct-14
29			2	6-Nov-14
30			9	9-Nov-14

Specific audit procedures performed included:

### Inventory

1. performed a 100% count of all on-hand liquor inventory at each store audited using a third party count team under the direction of the Liquor Distribution Branch (LDB) Store Auditor;
2. compared actual on-hand liquor inventory to the on-hand stock per the RMS perpetual inventory sub-ledger as at the time the count was performed;
3. reviewed and investigated identified variances between actual on-hand inventory and the inventory sub-ledger, on a sample basis;
4. facilitated the posting of inventory variance adjustments to the store inventory system to reflect on-hand inventory, with authorization from the BCLS Manager and the assistance of the LDB Support Centre; and
5. tested a sample of recent receiving and shipping transactions to ensure appropriate inventory cut-off.



## Cash

Performed a 100% count of on-hand cash followed by a reconciliation of on-hand cash to approved cash balances per the LDB general ledger. This reconciliation supports that cash has been properly reflected in the branch financial records.

## Cycle Count Monitoring

In addition to the inventory and cash procedures, Internal Audit has historically analyzed the timely completion of quarterly store inventory cycle counts in accordance with Branch policy (which requires each Store to count 100% of SKUs each quarter). Although the functionality of the application used to monitor cycle counts was lost in 2012, it was preliminarily restored in quarter one of 2014 and results were reported to stores starting in quarter two of 2014. As such, this report includes the cycle count monitoring data for fiscal 2014/2015 quarter one to three.

## Additional Audit Procedures

In addition to the above noted procedures, Internal Audit performed the following additional audit steps when performing a store audit:

1. Imprest records – reviewed the most recently completed Imprest Cash Account reconciliation (to be able to reconcile store funds to the approved funds per the LDB general ledger); reviewed the current month's paid invoices (to ensure payments are supported by the original invoices, the invoiced amount agrees to the amount recorded in the store cheque book, and all invoices appeared to be for legitimate store expenditures); and reviewed the cheque book for issued and unissued cheques (to ensure all cheques and/or cheque stubs are present as appropriate).
2. Litter records – reviewed Litter transactions between the financial period start and the audit count date to determine if daily Litter counts are occurring and to evaluate the Litter overs/shorts resulting from the Litter counts and if they are being reported.
3. PCI compliance – confirmed the existence of and use of visitor logs; observed pin pads are properly secured, have anti-tampering decals in place, and the decals have not been compromised; and confirmed credit/debit receipts are properly secured.

# Audit Results

## Inventory Count Results – Q3 Fiscal 2014/2015

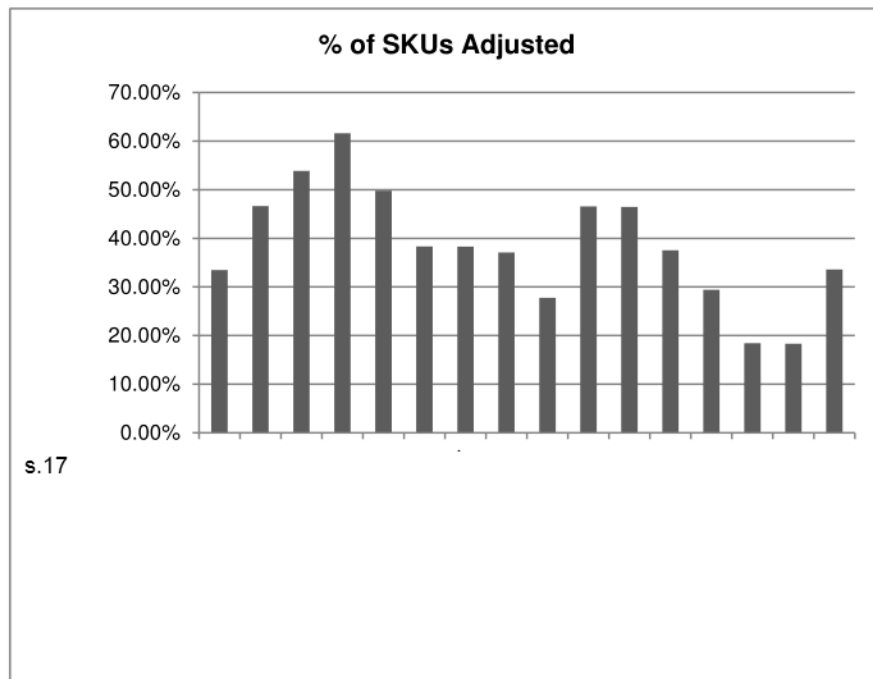
The following section summarizes the results of all 12 inventory counts performed in the quarter based upon the following measures:

- total SKUs adjusted; and
- total and net inventory overages and shortages (in both total display dollars and units).

The third quarter audit results are also compared to the quarterly averages for these measures based on the collective fiscal year 2011/2012, 2012/2013 and 2013/2014 results.

## Total SKUs Adjusted

The results of the fiscal 2014/2015 quarter three BCLS inventory counts show that five stores (42% of stores audited) had greater than 45% of their SKU's adjusted (**see bolded font**). Furthermore, only four stores (33%) had SKU adjustments below or consistent with the collective fiscal year 2011/2012 to 2013/2014 quarterly average (based on percentage).



s.17

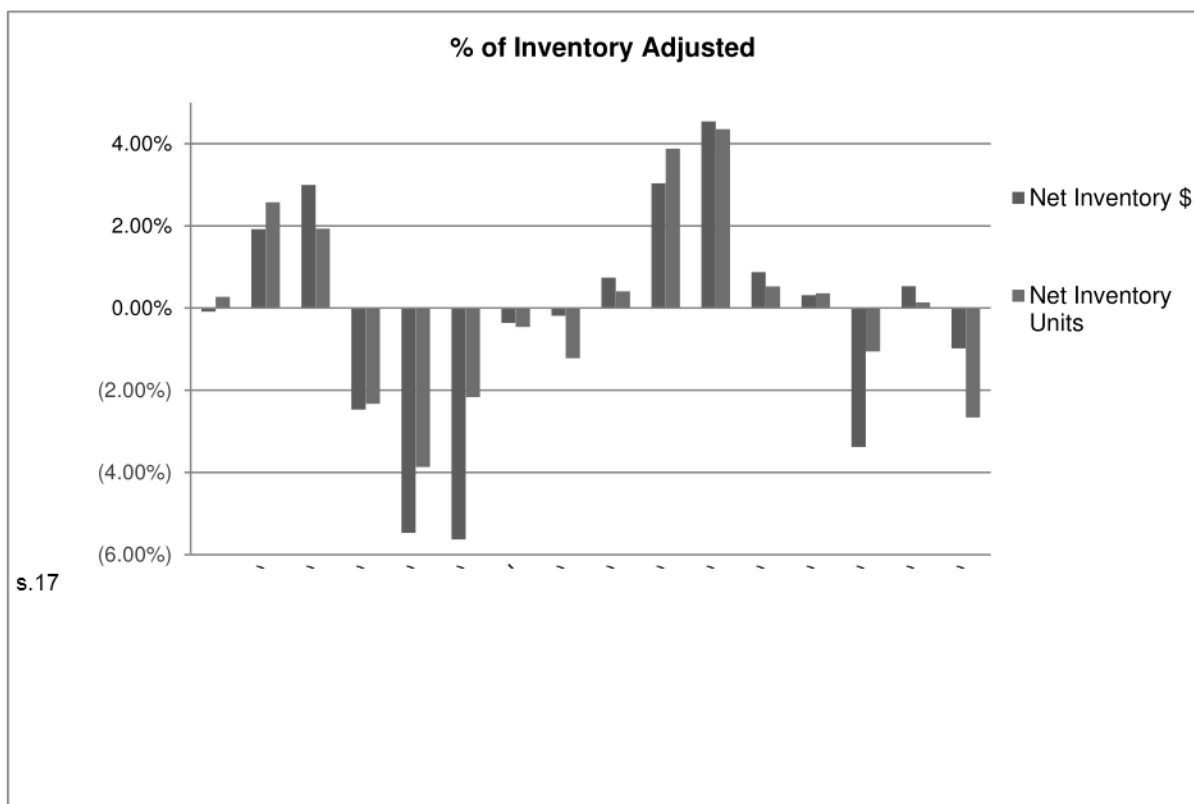
Total SKU Adjustments by Store - Q3 2014/2015							
Audit #	Store Number	Store Name	Regional Manager	Audit date	Total	Adjusted	%
19	s.17		1	2-Oct-14	s.17		
20			8	5-Oct-14			
21			8	16-Oct-14			
22			8	19-Oct-14			
23			1	20-Oct-14			
			1	20-Oct-14			
24			9	22-Oct-14			
25			5	27-Oct-14			
26			5	28-Oct-14			
			5	28-Oct-14			
27			5	29-Oct-14			
28			5	30-Oct-14			
29			2	6-Nov-14			
			2	6-Nov-14			
30			9	9-Nov-14			
<b>Totals</b>					<b>28,053</b>	<b>11,279</b>	<b>40.21%</b>
<b>Average Quarterly SKU Adjustment Based on FY11/12, 12/13, 13/14</b>							
<b>Results</b>						<b>8,052</b>	<b>33.47%</b>

Note: Table totals do not include "Adjusted" numbers.

\*\*SKU adjustments below or consistent with the collective fiscal year quarterly average (by %)

Total and Net Inventory Overages and Shortages (in Display \$ and Units)

The results of the fiscal 2014/2015 quarter three BCLS inventory counts show that in display dollars, there were two stores (17%) that had net inventory overages/shortages of greater than 5% (**see bolded font**) and only two stores (17%) were below or consistent with the collective fiscal year 2011/2012 to 2013/2014 quarterly average (based on the percentage). In units, there were no stores that had net inventory overages/shortages of greater than 5% but there only three stores (25%) that had net inventory overages/shortages below or consistent with the collective fiscal year 2011/2012 to 2013/2014 quarterly average (based on the percentage).



s.17

s.17

Inventory Over / Short Adjustments by Store - Q3 2014/2015										
Audit #	Store Number	Store Name	Regional Manager	Audit date	Inventory Value (Display \$)					
					Total	Over	%	Short	%	Net %
19	s.17		1	2-Oct-14	s.17					
20			8	5-Oct-14						
21			8	16-Oct-14						
22			8	19-Oct-14						
23			1	20-Oct-14						
			1	20-Oct-14						
24			9	22-Oct-14						
25			5	27-Oct-14						
26			5	28-Oct-14						
			5	28-Oct-14						
27			5	29-Oct-14						
28			5	30-Oct-14						
29			2	6-Nov-14						
			2	6-Nov-14						
30			9	9-Nov-14						
<b>Totals</b>					<b>\$8,398,628</b>	<b>\$464,050</b>	<b>5.53%</b>	<b>(\$559,082)</b>	<b>(6.66%)</b>	<b>(1.13%)</b>
<b>Average Quarterly Inventory Value Adjusted Based on FY11/12, 12/13, 13/14 Results</b>						<b>\$378,384</b>	<b>3.95%</b>	<b>(\$399,115)</b>	<b>(4.04%)</b>	<b>(0.09%)</b>

Note: Table totals do not include "Adjusted" numbers.

\*\* Net adjustments below or consistent with the collective fiscal year quarterly average (by %)

Inventory Over / Short Adjustments by Store - Q3 2014/2015										
Audit #	Store Number	Store Name	Regional Manager	Audit date	Units					
					Total	Over	%	Short	%	Net %
19	s.17		1	2-Oct-14	s.17					
20			8	5-Oct-14						
21			8	16-Oct-14						
22			8	19-Oct-14						
23			1	20-Oct-14						
			1	20-Oct-14						
24			9	22-Oct-14						
25			5	27-Oct-14						
26			5	28-Oct-14						
			5	28-Oct-14						
27			5	29-Oct-14						
28			5	30-Oct-14						
29			2	6-Nov-14						
			2	6-Nov-14						
30			9	9-Nov-14						
<b>Totals</b>					<b>488,428</b>	<b>24,613</b>	<b>5.04%</b>	<b>(27,223)</b>	<b>(5.57%)</b>	<b>(0.53%)</b>
<b>Average Quarterly Inventory Units Adjusted Based on FY11/12, 12/13, 13/14 Results</b>						<b>17,702</b>	<b>3.99%</b>	<b>(16,494)</b>	<b>(3.72%)</b>	<b>0.27%</b>

Note: Table totals do not include "Adjusted" numbers.

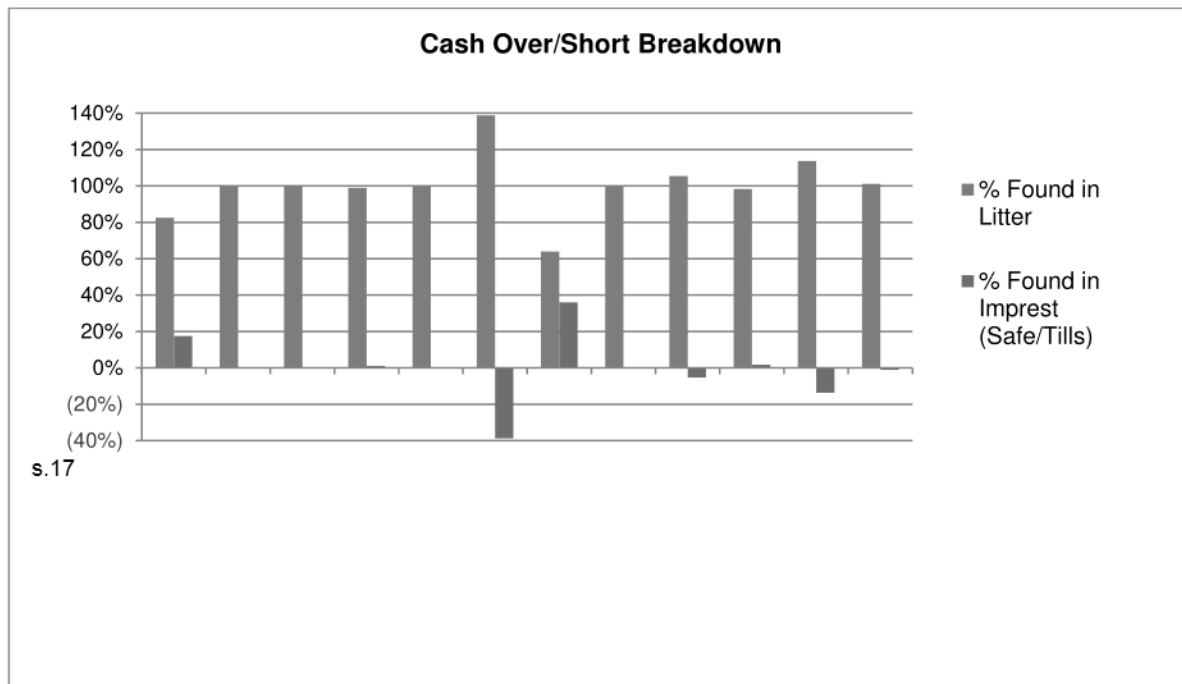
\*\* Net adjustments (by %) below or consistent with the collective fiscal year quarterly average

## Cash Count Results – Q3 Fiscal 2014/2015

The following tables and graph provide detailed results of all 12 cash counts performed in the quarter, including a breakdown of store cash overages/shortages into their source components and a comparison to quarterly averages based on the collective fiscal year 2011/2012, 2012/2013 and 2013/2014 results.

Overall, there were five stores (42% of stores audited) that had cash over/shorts of greater than 1% (**see bolded font**). Furthermore, of the quarter three over/shorts identified <sup>s.15,s.17</sup>

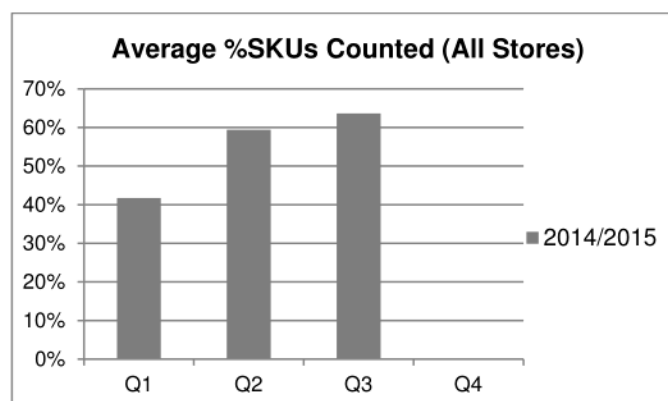
Imprest Cash Over / (Short) by Store - Q3 2014/2015												
Audit #	Store Number	Store Name	Regional Manager	Audit date	Total Approved per GL	Over	%	(Short)	%	Net	Net %	
19	s.17		1	2-Oct-14	s.17							
20			8	5-Oct-14								
21			8	16-Oct-14								
22			8	19-Oct-14								
23			1	20-Oct-14								
24			9	22-Oct-14								
25			5	27-Oct-14								
26			5	28-Oct-14								
27			5	29-Oct-14								
28			5	30-Oct-14								
29			2	6-Nov-14								
30			9	9-Nov-14								
	Totals				\$278,433	\$4,041	1.45%	(\$279)	(0.10%)	\$3,762	1.35%	
Average Quarterly Cash Variance Based on FY11/12, 12/13, 13/14 Results										(\$110)	(0.11%)	



Imprest Cash Over / (Short) Breakdown by Store - Q3 2014/2015									
Audit #	Store Number	Store Name	Regional Manager	Audit date	Net Over/Short	Portion Found in Litter	%	Portion Found in Imprest	%
19	s.17		1	2-Oct-14	s.17				
20			8	5-Oct-14					
21			8	16-Oct-14					
22			8	19-Oct-14					
23			1	20-Oct-14					
24			9	22-Oct-14					
25			5	27-Oct-14					
26			5	28-Oct-14					
27			5	29-Oct-14					
28			5	30-Oct-14					
29			2	6-Nov-14					
30			9	9-Nov-14					
	Totals								

#### Cycle Count Monitoring – Q3 Fiscal 2014/2015

The average percentage of SKUs counted by all BCLS during quarter three was 64 percent (stores are expected to count 100% of SKUs each quarter). This is an increase relative to the quarter two BCLS cycle count average of 59 percent.



2014/ 2015 Average %SKUS Counted (All Stores)	
<b>Q1</b>	42%
<b>Q2</b>	59%
<b>Q3</b>	64%
<b>Q4</b>	N/A

## Audit Results Analysis

### Comparative Audit Results and Analysis – 2011/2012, 2012/2013, 2013/2014 and 2014/2015

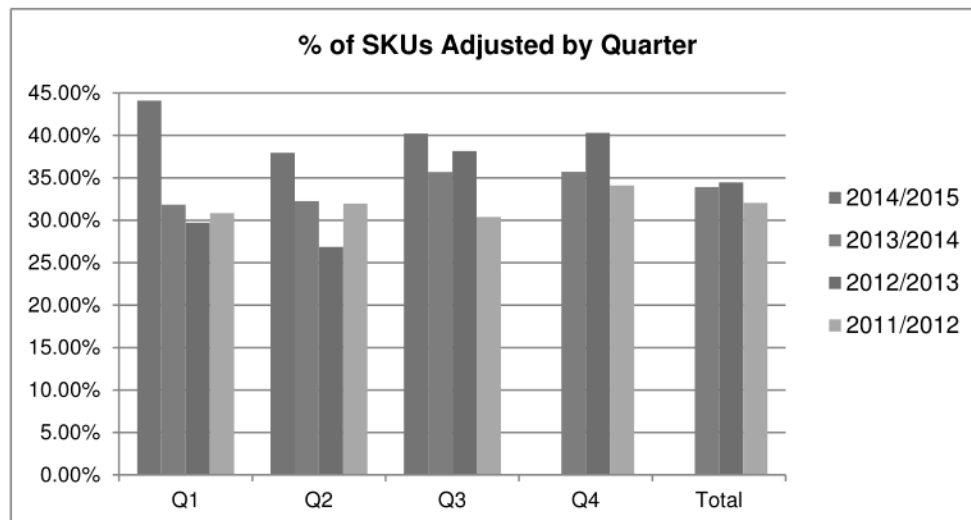
The following graphs provide comparative audit results by quarter for the four most recent fiscal years for the following audit findings:

- total percentage of SKUs adjusted;
- total inventory overage and shortage variances; and
- total cash count variances

Following each graph are tables disclosing the detailed quarterly audit results for fiscal 2011/2012, 2012/2013, 2013/2014 and 2014/2015.

### SKU Variance Summary

The results of the fiscal 2014/2015 quarter three BCLS inventory counts show that the average percentage of SKUs requiring adjustment increased relative to fiscal 2014/2015 quarter two and the average percentage adjustment for the quarter is the third highest from the last 15 quarters.



YTD 2014 / 2015 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	24,050	s.17	
Q2	23,120		
Q3	28,053		
Q4	N/A		
Total	75,223	30,658	40.76%

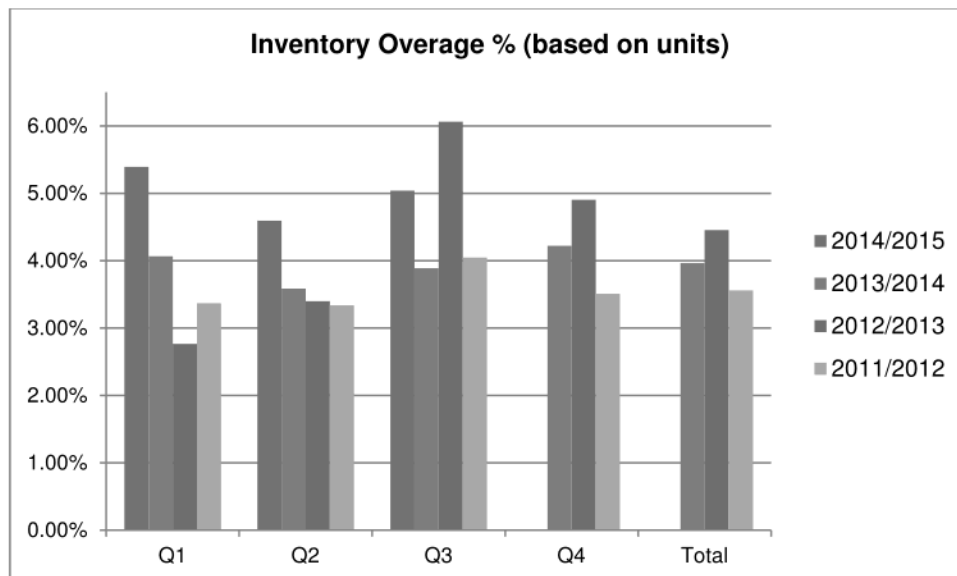
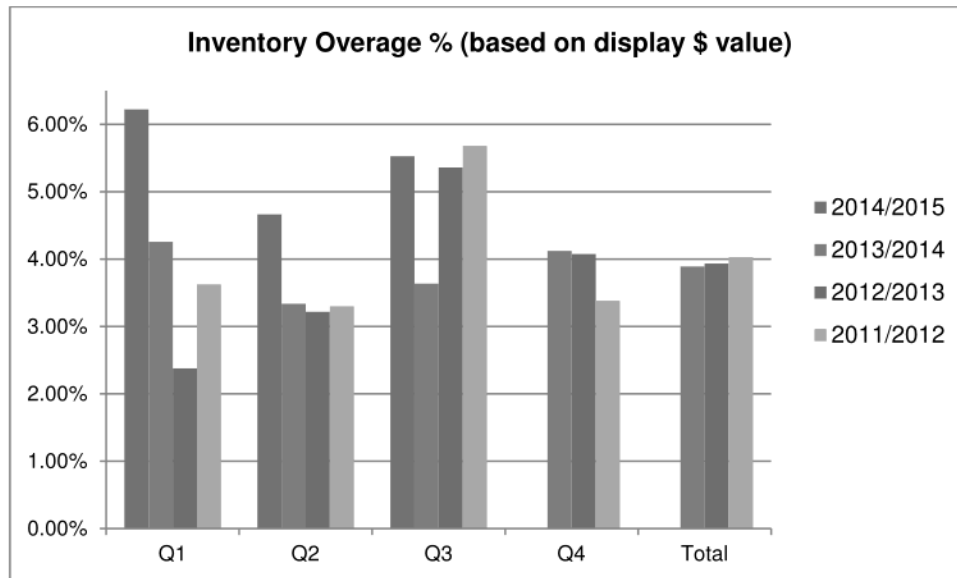
2013 / 2014 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	27,271	s.17	
Q2	21,047		
Q3	28,093		
Q4	22,772		
Total	99,183	33,632	33.91%

2012 / 2013 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	14,064	s.17	
Q2	25,804		
Q3	21,965		
Q4	31,135		
Total	92,968	32,042	34.47%

2011 / 2012 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	18,334	s.17	
Q2	25,221		
Q3	23,001		
Q4	30,025		
Total	96,581	30,950	32.05%

### Inventory Overage Variance Summary

The results of the fiscal 2014/2015 quarter three BCLS inventory counts show that the average percentage of inventory overages (both in display dollars and units) increased relative to fiscal 2014/15 quarter two and the average percentage overages for the quarter (both in display dollars and units) are the third highest from the last 15 quarters.





YTD 2014 / 2015 Inventory Overage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$10,438,266	s.17		465,223	s.17	
Q2	\$7,288,946			401,629		
Q3	\$8,398,628			488,428		
Q4	N/A			N/A		
Total	\$26,125,840	\$1,453,329	5.56%	1,355,280	68,146	5.03%

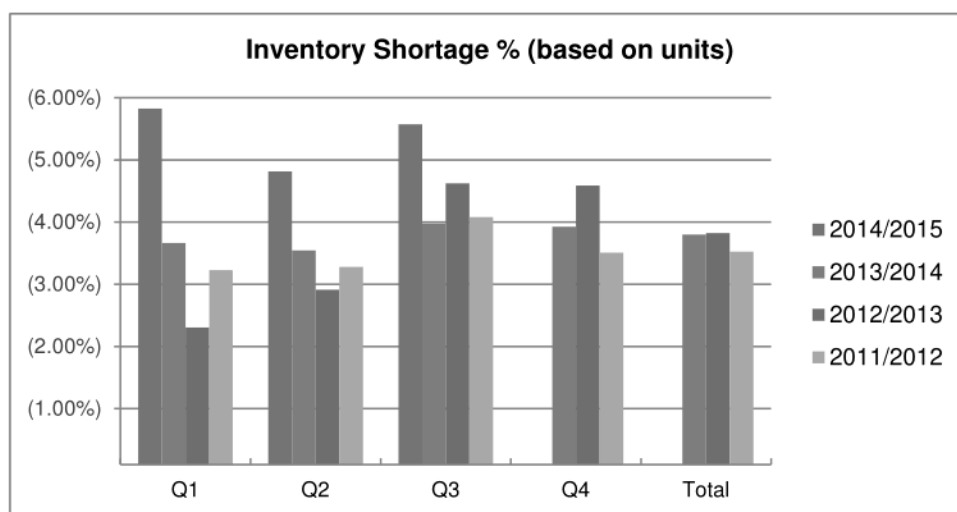
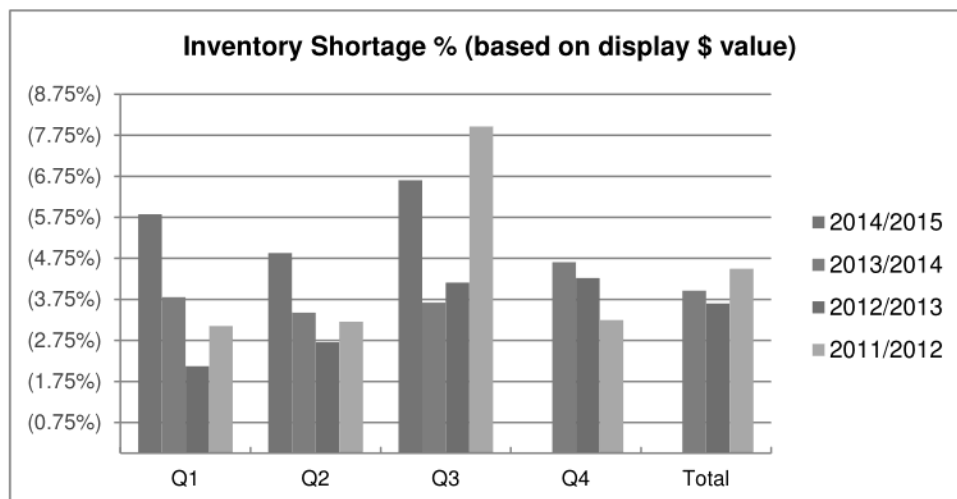
2013 / 2014 Inventory Overage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$10,380,237	s.17		467,219	s.17	
Q2	\$7,453,361			345,443		
Q3	\$9,848,179			509,627		
Q4	\$12,354,867			466,924		
Total	\$40,036,644	\$1,557,699	3.89%	1,789,213	70,914	3.96%

2012 / 2013 Inventory Overage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$4,762,818	s.17		259,625	s.17	
Q2	\$8,400,619			451,815		
Q3	\$7,612,261			384,565		
Q4	\$18,287,465			652,824		
Total	\$39,063,163	\$1,536,816	3.93%	1,748,829	77,864	4.45%

2011 / 2012 Inventory Overage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$6,188,125	s.17		339,085	s.17	
Q2	\$8,742,520			455,833		
Q3	\$9,786,759			396,730		
Q4	\$11,177,726			597,233		
Total	\$35,895,130	\$1,446,096	4.03%	1,788,881	63,648	3.56%

### Inventory Shortage Variance Summary

The results of the fiscal 2014/2015 quarter three BCLS inventory counts show that the average percentage of inventory shortages (both in display dollars and units) increased relative to fiscal 2014/15 quarter two and the average percentage shortages for the quarter (both in display dollars and units) are the second highest from the last 15 quarters.



YTD 2014 / 2015 Inventory Shortage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$10,438,266	s.17		465,223	s.17	
Q2	\$7,288,946			401,629		
Q3	\$8,398,628			488,428		
Q4	N/A			N/A		
<b>Total</b>	<b>\$26,125,840</b>	<b>(\$1,522,563)</b>	<b>(5.83%)</b>	<b>1,355,280</b>	<b>(73,659)</b>	<b>(5.43%)</b>

2013 / 2014 Inventory Shortage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$10,380,237	s.17		467,219	s.17	
Q2	\$7,453,361			345,443		
Q3	\$9,848,179			509,627		
Q4	\$12,354,867			466,924		
Total	\$40,036,644	(\$1,587,351)	(3.96%)	1,789,213	(67,988)	(3.80%)

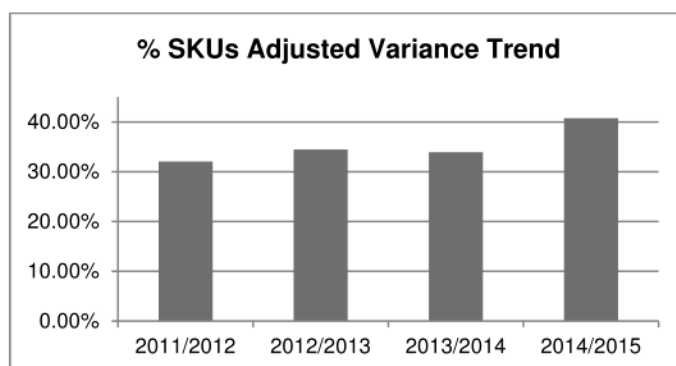
2012 / 2013 Inventory Shortage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$4,762,818	s.17		259,625	s.17	
Q2	\$8,400,619			451,815		
Q3	\$7,612,261			384,565		
Q4	\$18,287,465			652,824		
Total	\$39,063,163	(\$1,425,745)	(3.65%)	1,748,829	(66,881)	(3.82%)

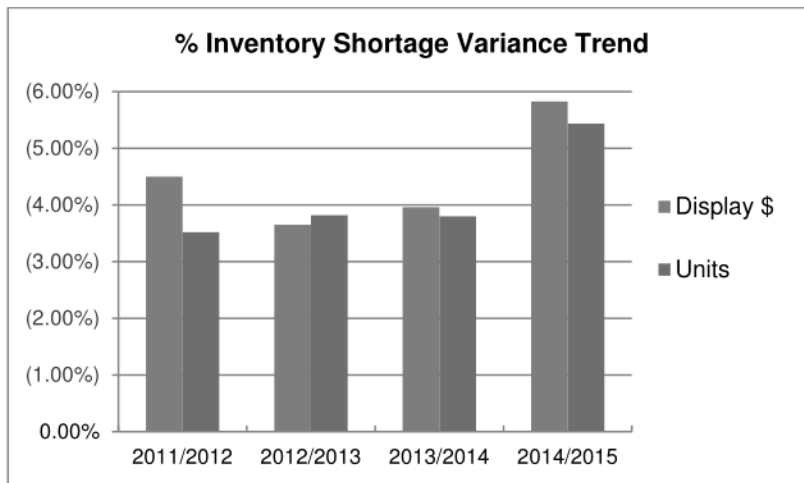
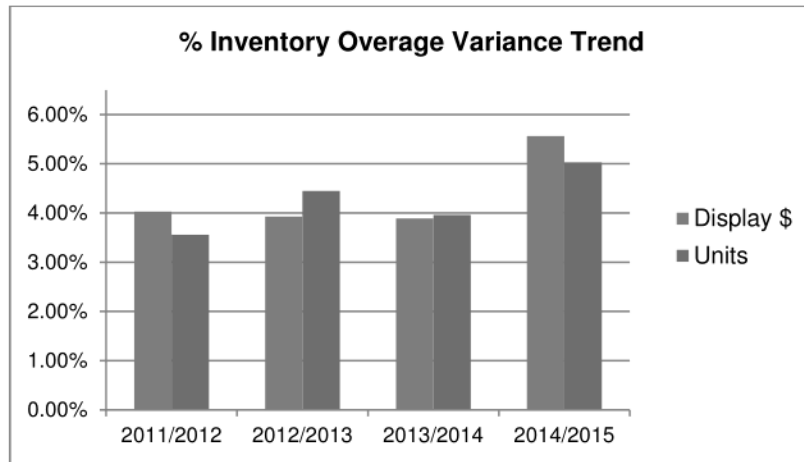
2011 / 2012 Inventory Shortage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$6,188,125	s.17		339,085	s.17	
Q2	\$8,742,520			455,833		
Q3	\$9,786,759			396,730		
Q4	\$11,177,726			597,233		
Total	\$35,895,130	(\$1,614,677)	(4.50%)	1,788,881	(63,057)	(3.52%)

#### Liquor Inventory Adjustments Trend Analysis

The results of the year-to-date fiscal 2014/2015 BCLS inventory counts show a higher percentage of SKUs as well as inventory overages and shortages requiring adjustment compared to the last three fiscal years (i.e. fiscal year 2011/2012, 2012/2013, and 2013/2014). In particular, the average percentage of SKUs requiring adjustment is approximately 6-9% higher compared to the already significant prior year annual averages of approximately 32-35%. The average inventory overages and shortages are approximately 0.5-2% higher compared to the prior year annual averages of approximately 3.5-4.5%.

A recap of the year-to-date fiscal 2014/2015 and the three most recent fiscal year results are as follows:

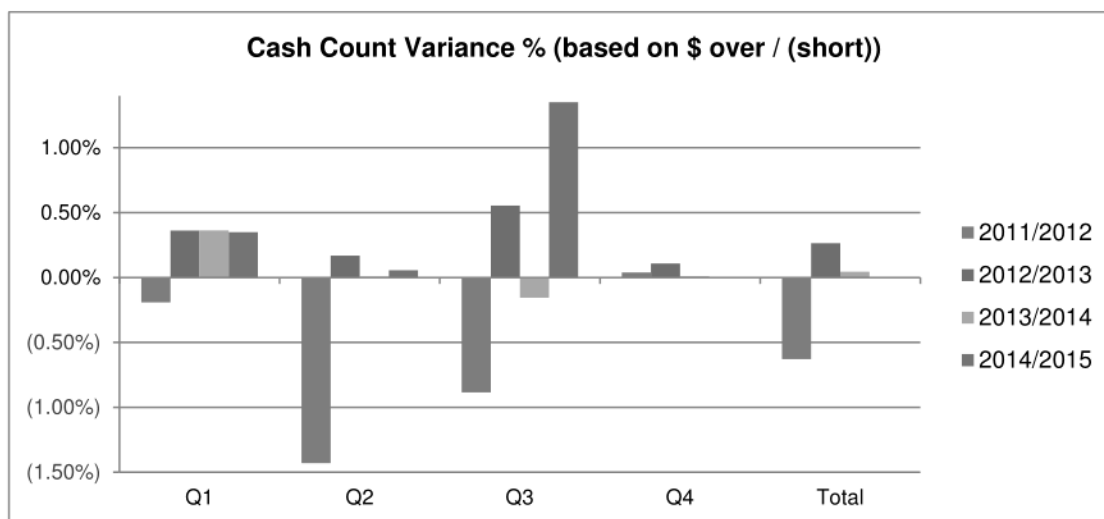




	SKUs Adjusted Variance Trend		Inventory Overages Variance Trend				Inventory Shortages Variance Trend			
	#	%	Display \$	%	Units	%	Display \$	%	Units	%
YTD 2014/2015	30,658	40.76%	\$1,453,329	s.17			(\$1,522,563)	s.17		
2013/2014	33,632	33.91%	\$1,557,699				(\$1,587,351)			
2012/2013	32,042	34.47%	\$1,536,816				(\$1,425,745)			
2011/2012	30,950	32.05%	\$1,446,096				(\$1,614,677)			

### Cash Count Variance Summary

The results of the fiscal 2014/2015 quarter three BCLS cash counts show that the average net cash variance increased relative to fiscal 2014/15 quarter two and is the second highest average variance adjustment from the last 15 quarters.



YTD 2014 / 2015 Cash Variance Summary				2013 / 2014 Cash Variance Summary			
	Total Approved Per GL (\$)	Net Variance	%	Total Approved Per GL (\$)	Net Variance	%	
Q1	\$236,536	s.17		\$275,640	s.17		
Q2	\$213,376			\$188,014			
Q3	\$278,433			\$358,047			
Q4	N/A			\$263,869			
Total	\$728,345	\$4,709	0.65%	\$1,085,570	\$484	0.04%	

2012 / 2013 Cash Variance Summary				2011 / 2012 Cash Variance Summary			
	Total Approved Per GL (\$)	Net Variance	%	Total Approved Per GL (\$)	Net Variance	%	
Q1	\$152,500	s.17		\$207,339	s.17		
Q2	\$316,177			\$298,072			
Q3	\$248,650			\$236,601			
Q4	\$365,822			\$311,526			
Total	\$1,083,149	\$2,861	0.26%	\$1,053,538	(\$6,635)	(0.63%)	

### Cash Variances Trend Analysis

The results of the year-to-date average fiscal 2014/2015 BCLS cash counts show consistent cash variances as compared to the last three fiscal years (i.e. fiscal year 2011/2012, 2012/2013, and 2013/2014). Furthermore, all annual average cash variances have been insignificant at under 1%, with the year-to-date average cash variance being 0.65% and the three prior year annual averages being between approximately (0.63)% and 0.26%.

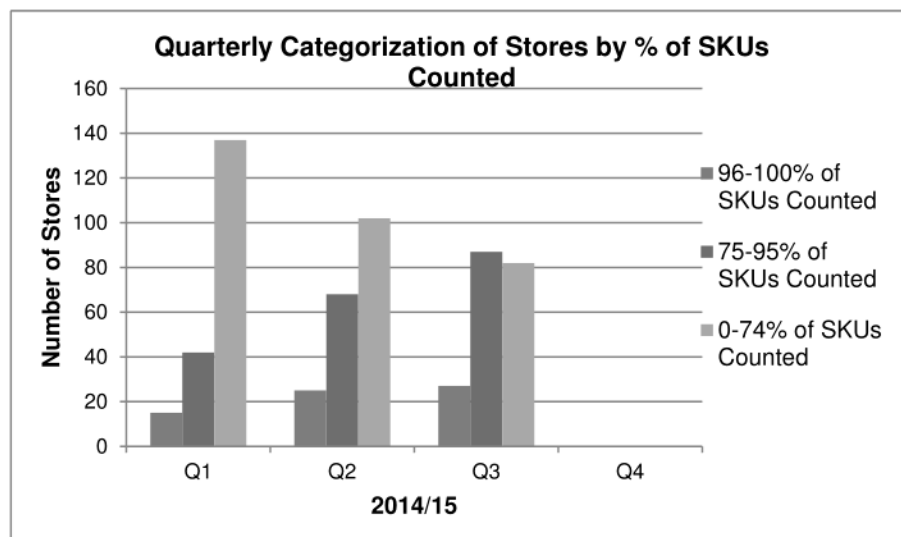
A recap of the year-to-date fiscal 2014/2015 and the three most recent fiscal year results are as follows:

	Cash Variance Trend	
	(\$)	(%)
<b>YTD 2014/2015</b>	4,709	0.65%
<b>2013/2014</b>	484	0.04%
<b>2012/2013</b>	2,861	0.26%
<b>2011/2012</b>	(6,635)	(0.63%)

### Cycle Count Monitoring Summary

The following graph and table classify all stores into one of three cycle count categories:

1. Stores counting 96-100% of SKUs during the quarter
2. Stores counting 75-95% of SKUs during the quarter
3. Stores counting 0-75% of SKUs during the quarter



	YTD 2014 / 2015 % Counted Categories					
	Stores Counting 96-100% of SKUs		Stores Counting 75-95% of SKUs		Stores Counting 0-74% of SKUs	
	%	#	%	#	%	#
<b>Q1</b>	s.17					
<b>Q2</b>						
<b>Q3</b>						
<b>Q4</b>						

*Note: 12 of the 27 quarter three stores that show as counting 96-100% of SKUs are a result of the inventory and cash counts performed by Internal Audit. The same concept applies to ten of the 25 quarter two stores and eight of the 15 quarter one stores.*

## Additional Audit Findings

The following observations were noted while performing the audit procedures for inventory, cash, Imprest records, Litter records and PCI compliance.

### Inventory

Of the 12 stores audited:

- Three stores (25%) had gift cards incorrectly included in inventory. These units were adjusted out of inventory as a result of the audit count.
  - BCLS s.17 (844 units worth \$56,850)
  - BCLS (102 units worth \$5,500)
  - BCLS (409 units worth \$25,925)

### Cash

Of the 12 stores audited:

- Two stores (17%) had excess on-hand Imprest cash of between \$1,500 and \$3,000 at the count date due to unpaid coin orders (BCLS # s.17 ).
- s.15,s.17

### Imprest Records

Of the 12 stores audited:

- s.15,s.17 (BCLS s.17 ).
- One store (8%) had a continuity break of 50 cheques in their cheque sequence and two blank signed cheques in the cheque book at the time of the audit. As the current store manager inherited the cheque sequence from the previous manager the current manager contacted the bank to confirm if the missing cheques were previously issued to the store. The bank was unable to confirm due to limitations in search history (records do not exceed three years). However, the bank confirmed that no new cheques were ordered within the past three years (BCLS #s.17 s.17 ).

### Litter Records

Of the 12 stores audited and for dates between the financial period start and the audit count date:

- s.15,s.17 did not perform daily Litter counts (**see bolded font**). However, the overall percentage of daily litter counts relative to the number of available business days was 92%.

% of Daily Litter Counts by Store - Q3 2014/2015							
Audit #	Store Number	Store Name	Regional Manager	Audit date	# of Available Business Days for Counts	# of Daily Litter Counts	% of Daily Litter Counts
19	s.17		1	2-Oct-14	4	s.17	
20			8	5-Oct-14	6		
21			8	16-Oct-14	15		
22			8	19-Oct-14	17		
23			1	20-Oct-14	18		
24			9	22-Oct-14	20		
25			5	27-Oct-14	24		
26			5	28-Oct-14	27		
27			5	29-Oct-14	25		
28			5	30-Oct-14	26		
29			2	6-Nov-14	8		
30			9	9-Nov-14	6		
			Totals				

- s.15,s.17 had daily Litter over/short occurrences of greater than s.15,s.17  
s.15,s.17





Litter Over/Short by Store - Q3 2014/2015								
Audit #	Store Number	Store Name	Regional Manager	Audit date	Net Daily Litter Over/Short		% Counts with Over/Short >\$40	% Over/Short >\$40 Reported
					Average	Median		
19	s.17		1	2-Oct-14	s.17			
20			8	5-Oct-14				
21			8	16-Oct-14				
22			8	19-Oct-14				
23			1	20-Oct-14				
24			9	22-Oct-14				
25			5	27-Oct-14				
26			5	28-Oct-14				
27			5	29-Oct-14				
28			5	30-Oct-14				
29			2	6-Nov-14				
30			9	9-Nov-14				
AVERAGES/MEDIANS								

s.17

### PCI Compliance

Of the 12 stores audited:

- All stores had present and appropriately maintained visitor logs and properly secured credit/debit receipts.
- All stores had pin pads that were properly secured with anti-tampering stickers in place.
- One store (8%) had a pin pad that was missing a shield (BCLS # s.17 ). However, this was confirmed remediated by Store Operations on December 15, 2014.



# **LIQUOR DISTRIBUTION BRANCH**

## **BC LIQUOR DISTRIBUTION BRANCH**

### **2014/2015 Fourth Quarter BC Liquor Stores Audit Summary Report**

**May 6, 2015**

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## Executive Summary

This report provides the detailed audit findings for the 10 BC Liquor Store (BCLS) audits performed in the fourth quarter of fiscal 2014/2015 as well as the annual audit findings for the 40 BCLS audits performed during fiscal 2013/2014. The audit procedures performed included a count of on-hand liquor and store cash, a review of Imprest and Litter records, an inspection of pin pad devices, visitor logs and appropriate debit/credit receipt storage for PCI compliance. In addition, the quarter four cycle count completion records for all BCLSs were reviewed.

Relative to the fiscal 2011/2012 to 2013/2014 quarter four average, the fiscal 2014/2015 fourth quarter results show a higher percentage of SKUs adjusted, inventory overages (dollars, units and percentages), inventory shortages (dollars and percentage of units) and cash variances (dollars and percentage). However, the fourth quarter results are lower in terms of the number of SKUs adjusted, the percentage of dollar inventory shortages and the number of unit inventory shortages.

From an annual perspective, the fiscal 2014/15 results are higher in all performance measures relative to the fiscal 2011/2012 to 2013/2014 annual average.

	FY14/15 Q4 Results	Q4 Average Based on FY11/12 to 13/14 Results	FY14/15 Results	Annual Average Based on FY11/12 to 13/14 Results
<b>SKUs</b>	s.17			
Adjusted				
% Adjusted				
<b>Inventory Overages (\$)</b>				
Adjusted				
% Adjusted (1)				
% Adjusted (2)				
<b>Inventory Shortages (\$)</b>				
Adjusted				
% Adjusted (1)				
% Adjusted (2)				
<b>Inventory Overages (Units)</b>				
Adjusted				
% Adjusted				
<b>Inventory Shortages (Units)</b>				
Adjusted				
% Adjusted				
<b>Cash Variance</b>				
Variance				
% Variance				

(1): Adjustment as a percentage of inventory display value.

(2): Adjustment as a percentage of fiscal year 2014/15 sales.

The cycle count monitoring data obtained for quarter four shows that the average percentage of SKUs counted during the quarter was 92% (stores are expected to count 100% of SKUs each quarter). Furthermore, 42 stores (21%) counted 100% of SKUs during the quarter of which 9 were attributable to counts performed by Internal Audit. If these Internal Audit counts are excluded, only 33 stores (17%) achieved the quarterly target of counting 100% of their on hand inventory.

Other findings identified during the fourth quarter audits of 10 stores included:

- staged orders greater than 3 months old still sitting in the warehouse at one store (page 19);
- Imprest account issues, including:
  - excess on-hand Imprest cash due to unpaid coin orders at two stores (page 19);
  - unauthorized annual newspaper subscription ordered at one store (page 19);

- imbalanced Imprest reconciliations submitted to Finance at one store (page 19);
- daily Litter counts executed <sup>s.15,</sup> of the time but <sup>s.15,</sup> of counts had <sup>s.15,s.17</sup>  
<sup>s.15,s.17</sup> of over/shorts were reported to Head Office (page 19-20); and
- pin pads glued to countertops at one store and illegible anti-tampering stickers on pin pads at another store (page 20).

## Objectives

For each of the 10 BC Liquor Stores (BCLS) attended during the period the key engagement objectives were to obtain information regarding:

1. on-hand inventory at the fieldwork date in relation to the store's inventory per the RMS perpetual inventory sub-ledger;
2. on-hand cash at the fieldwork date in relation to the approved general ledger balance;
3. adherence to quarterly cycle counts of 100% of inventory;
4. the appropriateness of and support for the current period's Imprest transactions;
5. management of Litter; and
6. adherence to select PCI standards.

## Scope & Approach

The 10 BCLSs attended during the period were visited between January 15 and March 18, 2015 and included the following locations (audit engagements #31-40):

Audit #	Store #	Store Name	Regional Manager	Audit Fieldwork Date
31	s.17		8	25-Jan-15
32			8	1-Feb-15
33			9	15-Feb-15
34			8	19-Feb-15
35			1	11-Mar-15
36			0	14-Mar-15
37			4	15-Mar-15
38			4	16-Mar-15
39			4	17-Mar-15
40			4	18-Mar-15

Although 10 stores were attended and counted, one store did not accept the count results (BCLS s.17 s.17). As such, the inventory count adjustments were not populated in the store inventory and are not presented in this report.

Specific audit procedures performed included:

### Inventory

1. performed a 100% count of all on-hand liquor inventory at each store audited using a third party count team under the direction of the Liquor Distribution Branch (LDB) Store Auditor;
2. compared actual on-hand liquor inventory to the on-hand stock per the RMS perpetual inventory sub-ledger as at the time the count was performed;
3. reviewed and investigated identified variances between actual on-hand inventory and the inventory sub-ledger, on a sample basis;
4. facilitated the posting of inventory variance adjustments to the store inventory system to reflect on-hand inventory, with authorization from the BCLS Manager and the assistance of the LDB Support Centre; and
5. tested a sample of recent receiving and shipping transactions to ensure appropriate inventory cut-off.

### Cash

Performed a 100% count of on-hand cash followed by a reconciliation of on-hand cash to approved cash balances per the LDB general ledger. This reconciliation supports that cash has been properly reflected in the branch financial records.

### Cycle Count Monitoring

In addition to the inventory and cash procedures, Internal Audit has historically analyzed the timely completion of quarterly store inventory cycle counts in accordance with Branch policy (which requires each Store to count 100% of SKUs each quarter). Although the functionality of the application used to monitor cycle counts was lost in 2012, it was preliminarily restored in quarter one of 2014 and results were reported to stores starting in quarter two of 2014. As such, this report includes the cycle count monitoring data for fiscal 2014/2015 quarter one to four.

### Additional Audit Procedures

In addition to the above noted procedures, Internal Audit performed the following additional audit steps when performing a store audit:

1. Imprest records – reviewed the most recently completed Imprest Cash Account reconciliation (to be able to reconcile store funds to the approved funds per the LDB general ledger); reviewed the current month's paid invoices (to ensure payments are supported by the original invoices, the invoiced amount agrees to the amount recorded in the store cheque book, and all invoices appeared to be for legitimate store expenditures); and reviewed the cheque book for issued and unissued cheques (to ensure all cheques and/or cheque stubs are present as appropriate).
2. Litter records – reviewed Litter transactions between the financial period start and the audit count date to determine if daily Litter counts are occurring and to evaluate the Litter overs/shorts resulting from the Litter counts and if they are being reported.
3. PCI compliance – confirmed the existence of and use of visitor logs; observed pin pads are properly secured, have anti-tampering decals in place, and the decals have not been compromised; and confirmed credit/debit receipts are properly secured.

## **Audit Results**

### Inventory Count Results – Q4 Fiscal 2014/2015

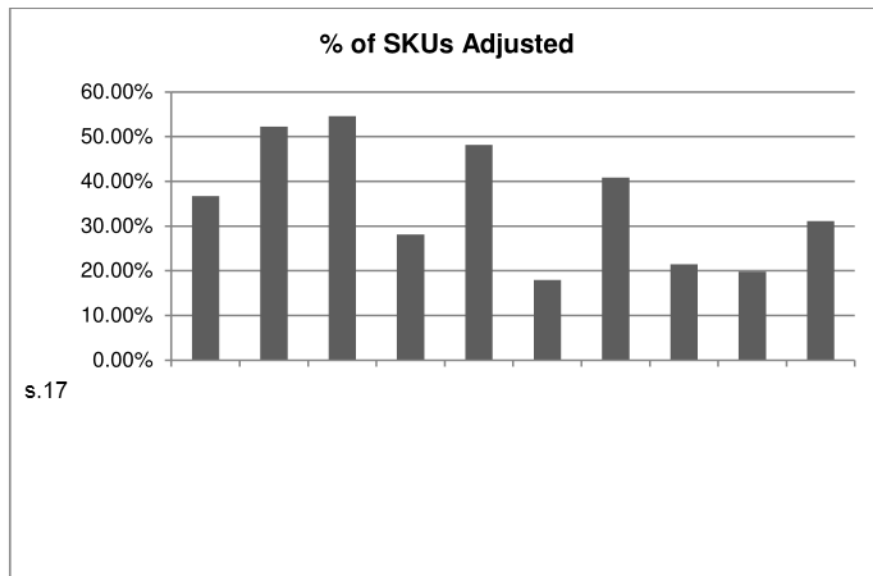
The following section summarizes the results of all 10 inventory counts performed in the quarter based upon the following measures:

- total SKUs adjusted; and
- total and net inventory overages and shortages (in both total display dollars and units).

The fourth quarter audit results are also compared to the quarter four averages for these measures (based on fiscal year 2011/2012, 2012/2013 and 2013/2014 data).

### Total SKUs Adjusted

The results of the fiscal 2014/2015 quarter four BCLS inventory counts show that three stores (30% of stores audited) had greater than 45% of their SKU's adjusted (**see bolded font**). Conversely, five stores (50%) had SKU adjustments below or consistent with the 2011/2012 to 2013/2014 quarter four average (based on percentage).



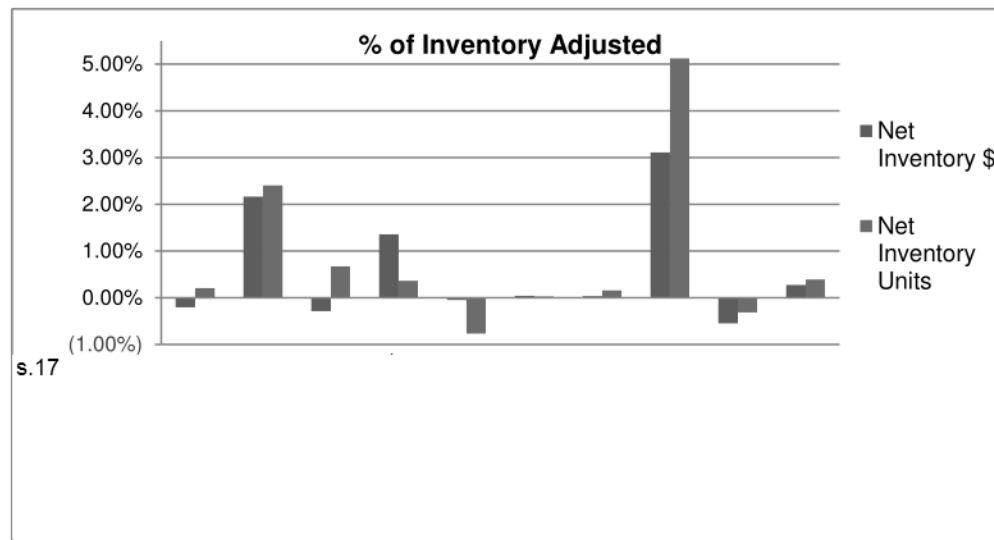
Total SKU Adjustments by Store - Q4 2014/2015							
Audit #	Store Number	Store Name	Regional Manager	Audit date	Total	Adjusted	%
31	s.17		8	25-Jan-15	2,915	s.17	
32			8	1-Feb-15	N/A		
33			9	15-Feb-15	5,371		
34			8	19-Feb-15	2,677		
35			1	11-Mar-15	2,706		
36			0	14-Mar-15	1,161		
37			4	15-Mar-15	3,339		
38			4	16-Mar-15	2,103		
39			4	17-Mar-15	2,141		
40			4	18-Mar-15	3,257		
Totals					25,670	9,967	38.83%
Average Q4 SKU Adjustment Based on FY11/12, 12/13, 13/14 Results						10,306	36.70%

*\*\*SKU adjustments below or consistent with the 2011/2012 to 2013/2014 quarter four average (by %)*

Total and Net Inventory Overages and Shortages (in Display \$ and Units)

The results of the fiscal 2014/2015 quarter four BCLS inventory counts show that in display dollars the highest net inventory overage/shortage was 3.11% (BCLS s.17 and five stores (50%) were below or consistent with the 2011/2012 to 2013/2014 quarter four average (based on the absolute percentage). In units, one store had a net inventory overage/shortage of greater than 5% (BCLS s.17 s.17 and there are five stores (50%) with net inventory overages/shortages below or consistent with the 2011/2012 to 2013/2014 quarter four average (based on the absolute percentage).





Inventory Over / Short Adjustments by Store - Q4 2014/2015										
Audit #	Store Number	Store Name	Regional Manager	Audit date	Inventory Value (Display \$)					
					Total	Over	%	Short	%	Net %
31	s.17		8	25-Jan-15	\$888,922	s.17				
32			8	1-Feb-15	N/A					
33			9	15-Feb-15	\$7,514,925					
34			8	19-Feb-15	\$874,379					
35			1	11-Mar-15	\$867,633					
36			0	14-Mar-15	\$1,141,800					
37			4	15-Mar-15	\$1,390,095					
38			4	16-Mar-15	\$552,309					
39			4	17-Mar-15	\$488,984					
40			4	18-Mar-15	\$1,245,593					
<b>Totals</b>					<b>\$14,964,639</b>	<b>\$613,624</b>	<b>4.10%</b>	<b>(\$585,686)</b>	<b>(3.91%)</b>	<b>0.19%</b>
<b>Average Q4 Inventory Value Adjusted Based on FY11/12, 12/13, 13/14 Results</b>						<b>\$544,038</b>	<b>3.86%</b>	<b>(\$573,080)</b>	<b>(4.06%)</b>	<b>(0.20%)</b>

\*\* Net adjustments below or consistent with the 2011/2012 to 2013/2014 quarter four average (by absolute %)

Inventory Over / Short Adjustments by Store - Q4 2014/2015										
Audit #	Store Number	Store Name	Regional Manager	Audit date	Units					
					Total	Over	%	Short	%	Net %
31	s.17		8	25-Jan-15	51,808	s.17				
32			8	1-Feb-15	N/A					
33			9	15-Feb-15	120,768					
34			8	19-Feb-15	51,877					
35			1	11-Mar-15	55,882					
36			0	14-Mar-15	61,813					
37			4	15-Mar-15	61,527					
38			4	16-Mar-15	29,558					
39			4	17-Mar-15	32,832					
40			4	18-Mar-15	60,187					
<b>Totals</b>					<b>526,252</b>	<b>25,774</b>	<b>4.90%</b>	<b>(22,191)</b>	<b>(4.22%)</b>	<b>0.68%</b>
<b>Average Q4 Inventory Units Adjusted Based on FY11/12, 12/13, 13/14 Results</b>						<b>24,227</b>	<b>4.21%</b>	<b>(23,084)</b>	<b>(4.01%)</b>	<b>0.20%</b>

\*\* Net adjustments below or consistent with the 2011/2012 to 2013/2014 quarter four average (by absolute %)

### Cash Count Results – Q4 Fiscal 2014/2015

The following tables and graph provide detailed results of all 10 cash counts performed in the quarter, including a breakdown of store cash overages/shortages into their source components and a comparison to the 2011/2012 to 2013/2014 quarter four average. Overall, all stores had cash overs/shorts less than 1%. Also, with the exception of trivial differences found in the safe/till, s.15,s. of the cash over/shorts existed in the Litter.

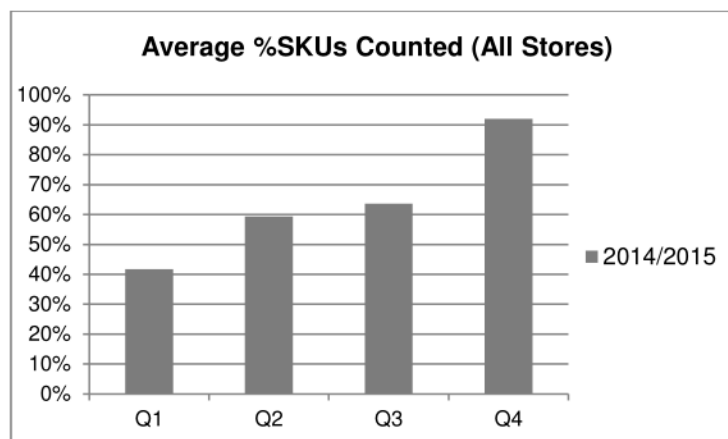
Imprest Cash Over / (Short) by Store - Q4 2014/2015											
Audit #	Store Number	Store Name	Regional Manager	Audit date	Total Approved per GL	Over	%	(Short)	%	Net	Net %
31	s.17		8	25-Jan-15	\$28,000	s.17					
32			8	1-Feb-15	\$41,500						
33			9	15-Feb-15	\$78,054						
34			8	19-Feb-15	\$21,000						
35			1	11-Mar-15	\$28,000						
36			0	14-Mar-15	\$10,000						
37			4	15-Mar-15	\$33,500						
38			4	16-Mar-15	\$14,500						
39			4	17-Mar-15	\$18,000						
40			4	18-Mar-15	\$28,000						
	Totals				\$300,554	\$990	0.33%	(\$93)	(0.03%)	\$897	0.30%
Average Q4 Cash Variance Based on FY11/12, 12/13, 13/14 Results										\$181	0.05%



Imprest Cash Over / (Short) Breakdown by Store - Q4 2014/2015									
Audit #	Store Number	Store Name	Regional Manager	Audit date	Net Over/ Short	Portion Found in Litter	%	Portion Found in Imprest	%
31	s.17		8	25-Jan-15	s.17				
32			8	1-Feb-15					
33			9	15-Feb-15					
34			8	19-Feb-15					
35			1	11-Mar-15					
36			0	14-Mar-15					
37			4	15-Mar-15					
38			4	16-Mar-15					
39			4	17-Mar-15					
40			4	18-Mar-15					
	Totals				\$897	s.15,s.17			

#### Cycle Count Monitoring – Q4 Fiscal 2014/2015

The average percentage of SKUs counted by all BCLS during quarter four was 92 percent (stores are expected to count 100% of SKUs each quarter). This is an increase relative to the quarter three BCLS cycle count average of 64 percent.



2014/ 2015 Average %SKUS Counted (All Stores)	
<b>Q1</b>	42%
<b>Q2</b>	59%
<b>Q3</b>	64%
<b>Q4</b>	92%

## Audit Results Analysis

### Comparative Audit Results and Analysis – 2011/2012, 2012/2013, 2013/2014 and 2014/2015

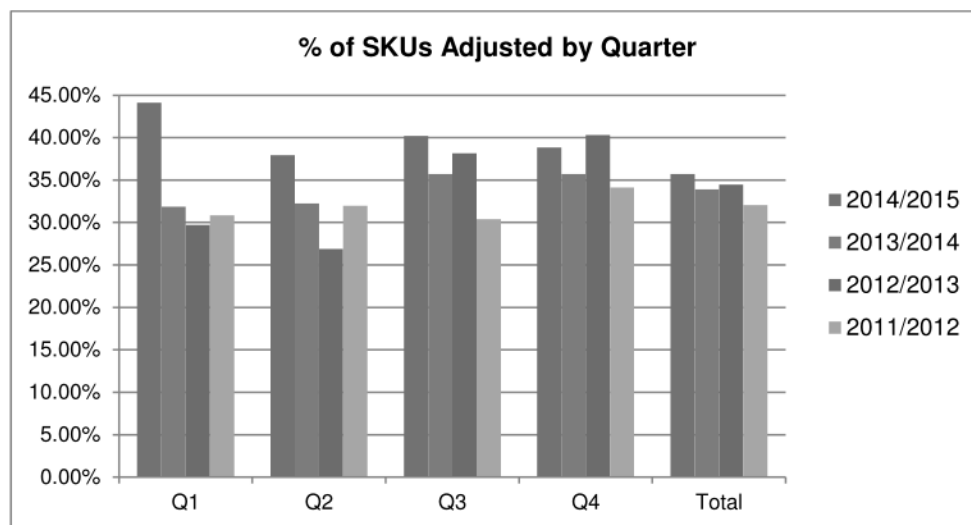
The following graphs provide comparative audit results by quarter for the four most recent fiscal years for the following audit findings:

- total percentage of SKUs adjusted;
- total inventory overage and shortage variances; and
- total cash count variances

Following each graph are tables disclosing the detailed quarterly audit results for fiscal 2011/2012, 2012/2013, 2013/2014 and 2014/2015.

### SKU Variance Summary

The results of the fiscal 2014/2015 quarter four BCLS inventory counts show that the average percentage of SKUs requiring adjustment decreased slightly relative to fiscal 2014/2015 quarter three.



2014 / 2015 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	24,050	s.17	
Q2	23,120		
Q3	28,053		
Q4	25,670		
Total	100,893	40,625	40.27%

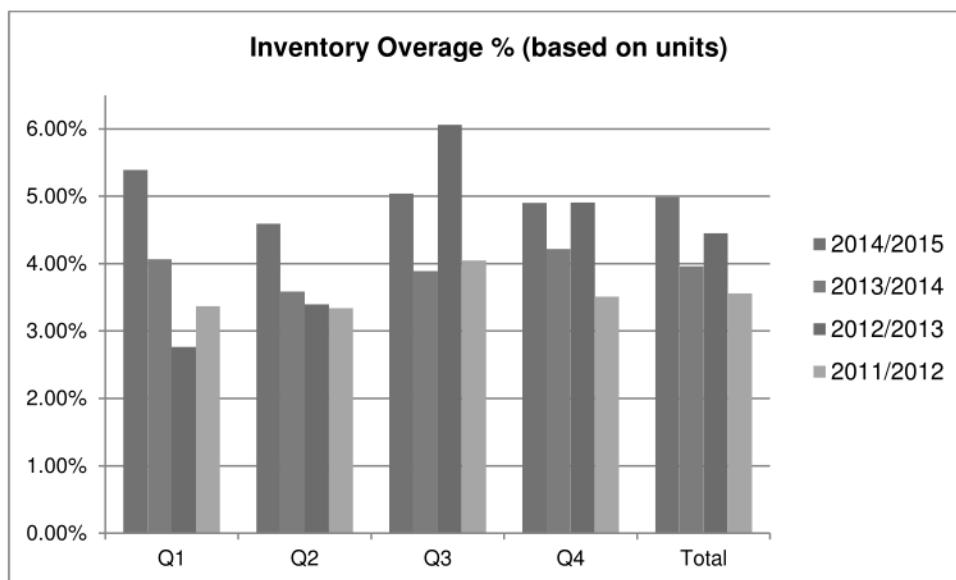
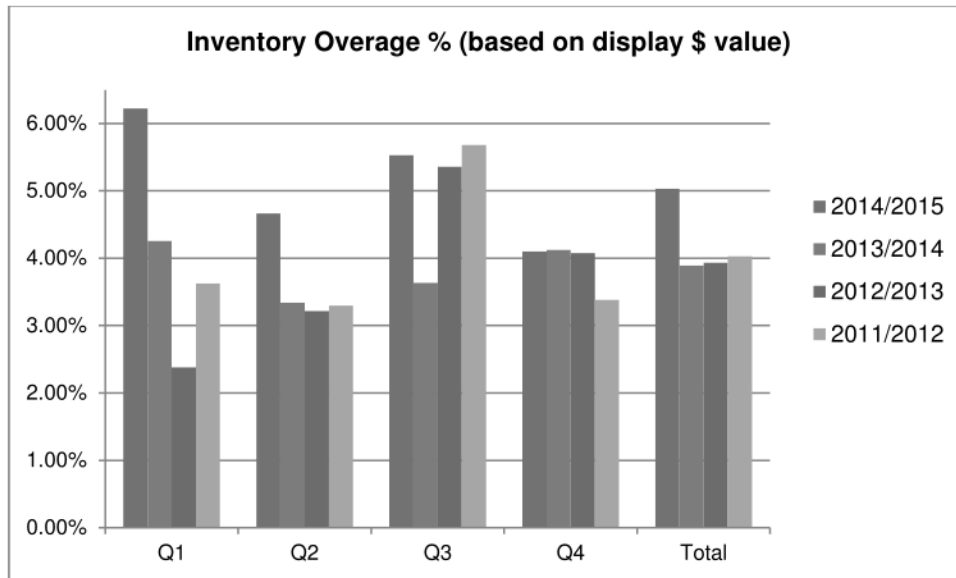
2013 / 2014 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	27,271	s.17	
Q2	21,047		
Q3	28,093		
Q4	22,772		
Total	99,183	33,632	33.91%

2012 / 2013 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	14,064	s.17	
Q2	25,804		
Q3	21,965		
Q4	31,135		
Total	92,968	32,042	34.47%

2011 / 2012 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	18,334	s.17	
Q2	25,221		
Q3	23,001		
Q4	30,025		
Total	96,581	30,950	32.05%

### Inventory Overage Variance Summary

The results of the fiscal 2014/2015 quarter four BCLS inventory counts show that relative to fiscal 2014/15 quarter three, the average percentage of dollar and unit inventory decreased whereas the total dollars and units increased.



2014 / 2015 Inventory Overage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
<b>Q1</b>	\$10,438,266	s.17		465,223	s.17	
<b>Q2</b>	\$7,288,946			401,629		
<b>Q3</b>	\$8,398,628			488,428		
<b>Q4</b>	\$14,964,639			526,252		
<b>Total</b>	<b>\$41,090,479</b>	<b>\$2,066,952</b>	<b>5.03%</b>	<b>1,881,532</b>	<b>93,920</b>	<b>4.99%</b>

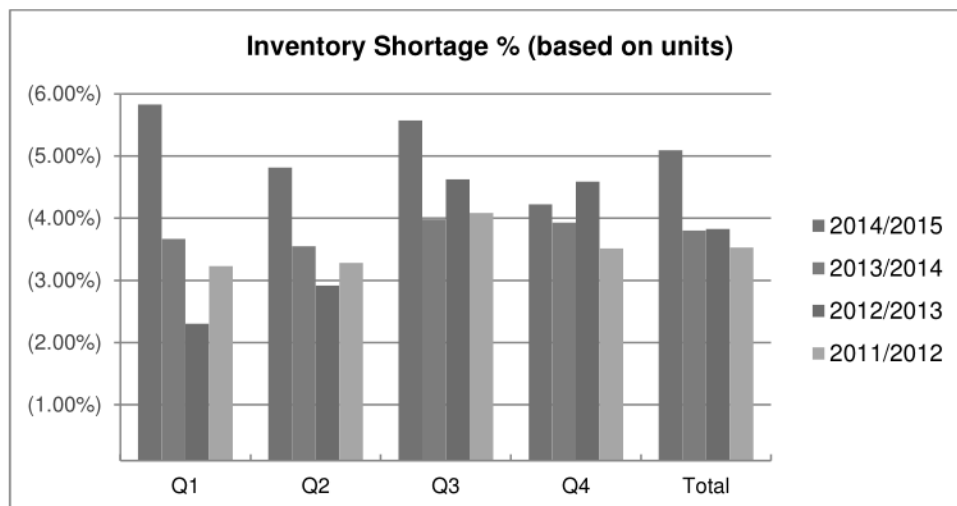
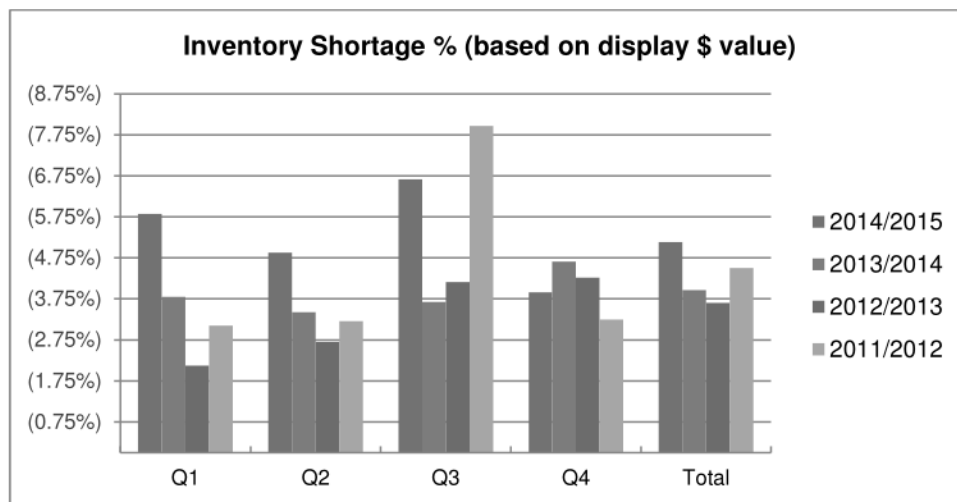
2013 / 2014 Inventory Overage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
<b>Q1</b>	\$10,380,237	s.17		467,219	s.17	
<b>Q2</b>	\$7,453,361			345,443		
<b>Q3</b>	\$9,848,179			509,627		
<b>Q4</b>	\$12,354,867			466,924		
<b>Total</b>	<b>\$40,036,644</b>	<b>\$1,557,699</b>	<b>3.89%</b>	<b>1,789,213</b>	<b>70,914</b>	<b>3.96%</b>

2012 / 2013 Inventory Overage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
<b>Q1</b>	\$4,762,818	s.17		259,625	s.17	
<b>Q2</b>	\$8,400,619			451,815		
<b>Q3</b>	\$7,612,261			384,565		
<b>Q4</b>	\$18,287,465			652,824		
<b>Total</b>	<b>\$39,063,163</b>	<b>\$1,536,816</b>	<b>3.93%</b>	<b>1,748,829</b>	<b>77,864</b>	<b>4.45%</b>

2011 / 2012 Inventory Overage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
<b>Q1</b>	\$6,188,125	s.17		339,085	s.17	
<b>Q2</b>	\$8,742,520			455,833		
<b>Q3</b>	\$9,786,759			396,730		
<b>Q4</b>	\$11,177,726			597,233		
<b>Total</b>	<b>\$35,895,130</b>	<b>\$1,446,096</b>	<b>4.03%</b>	<b>1,788,881</b>	<b>63,648</b>	<b>3.56%</b>

### Inventory Shortage Variance Summary

The results of the fiscal 2014/2015 quarter four BCLS inventory counts show that the inventory shortages (both in dollars, units and percentages) decreased relative to fiscal 2014/15 quarter three.



2014 / 2015 Inventory Shortage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
Q1	\$10,438,266	s.17		465,223	s.17	
Q2	\$7,288,946			401,629		
Q3	\$8,398,628			488,428		
Q4	\$14,964,639			526,252		
<b>Total</b>	<b>\$41,090,479</b>	<b>(\$2,108,249)</b>	<b>(5.13%)</b>	<b>1,881,532</b>	<b>(95,850)</b>	<b>(5.09%)</b>

2013 / 2014 Inventory Shortage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
<b>Q1</b>	\$10,380,237	s.17		467,219	s.17	
<b>Q2</b>	\$7,453,361			345,443		
<b>Q3</b>	\$9,848,179			509,627		
<b>Q4</b>	\$12,354,867			466,924		
<b>Total</b>	<b>\$40,036,644</b>	<b>(\$1,587,351)</b>	<b>(3.96%)</b>	<b>1,789,213</b>	<b>(67,988)</b>	<b>(3.80%)</b>

2012 / 2013 Inventory Shortage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
<b>Q1</b>	\$4,762,818	s.17		259,625	s.17	
<b>Q2</b>	\$8,400,619			451,815		
<b>Q3</b>	\$7,612,261			384,565		
<b>Q4</b>	\$18,287,465			652,824		
<b>Total</b>	<b>\$39,063,163</b>	<b>(\$1,425,745)</b>	<b>(3.65%)</b>	<b>1,748,829</b>	<b>(66,881)</b>	<b>(3.82%)</b>

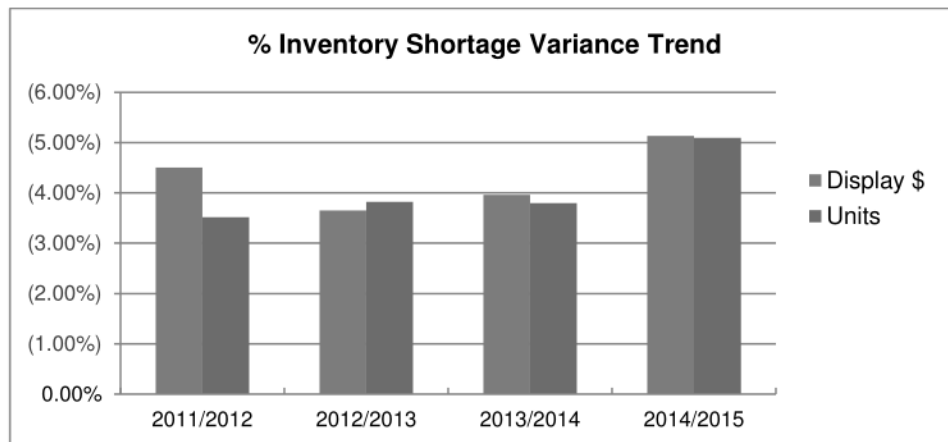
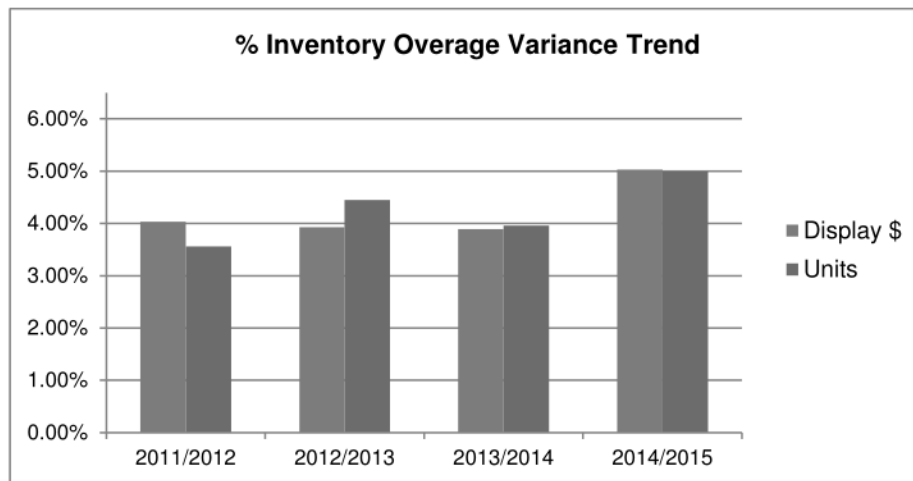
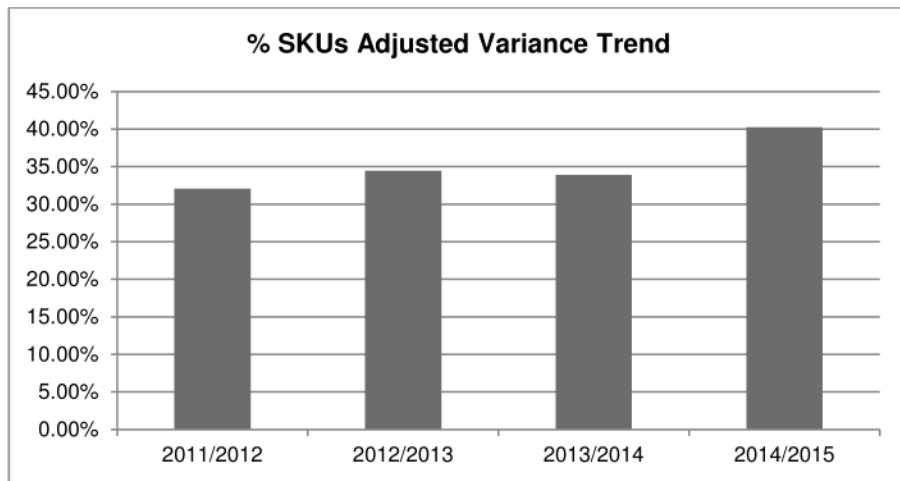
2011 / 2012 Inventory Shortage Summary						
	Total (Display \$)	Adjusted	%	Total (Units)	Adjusted	%
<b>Q1</b>	\$6,188,125	s.17		339,085	s.17	
<b>Q2</b>	\$8,742,520			455,833		
<b>Q3</b>	\$9,786,759			396,730		
<b>Q4</b>	\$11,177,726			597,233		
<b>Total</b>	<b>\$35,895,130</b>	<b>(\$1,614,677)</b>	<b>(4.50%)</b>	<b>1,788,881</b>	<b>(63,057)</b>	<b>(3.52%)</b>

#### Liquor Inventory Adjustments Trend Analysis

The results of the fiscal 2014/2015 BCLS inventory counts show a higher percentage of SKUs as well as inventory overages and shortages requiring adjustment compared to the last three fiscal years (i.e. fiscal year 2011/2012, 2012/2013, and 2013/2014). In particular, the average percentage of SKUs requiring adjustment is approximately 6-8% higher compared to the already significant prior year annual averages of approximately 32-35%. The average inventory overages and shortages are approximately 0.5-1.5% higher compared to the prior year annual averages of approximately 3.5-4.5%.

A recap of the fiscal 2014/2015 and the three most recent fiscal year results are as follows:

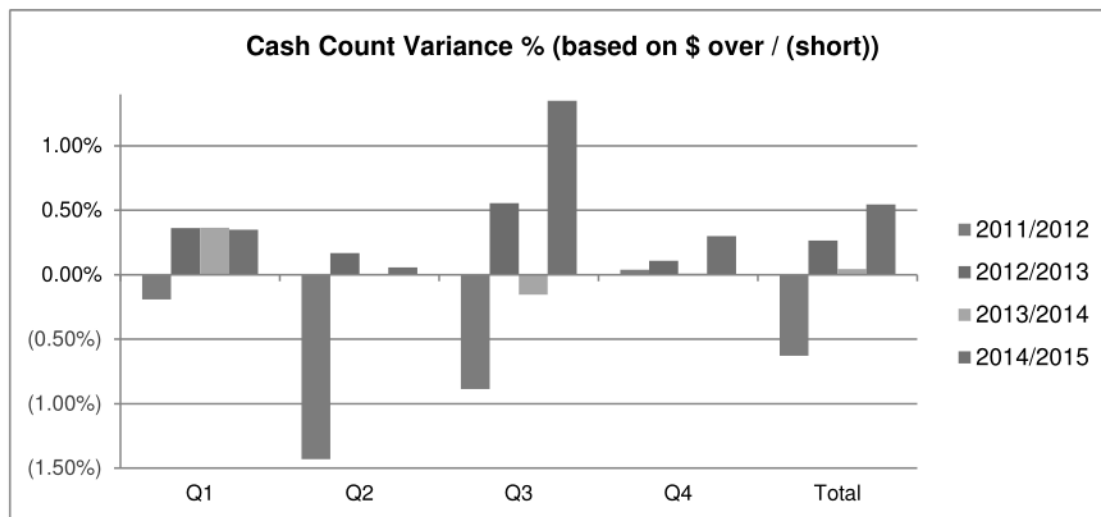




	SKUs Adjusted Variance Trend		Inventory Overages Variance Trend				Inventory Shortages Variance Trend			
	#	%	Display \$	%	Units	%	Display \$	%	Units	%
2014/2015	40,625	40.27%	\$2,066,952	s.17			(\$2,108,249)	s.17		
2013/2014	33,632	33.91%	\$1,557,699				(\$1,587,351)			
2012/2013	32,042	34.47%	\$1,536,816				(\$1,425,745)			
2011/2012	30,950	32.05%	\$1,446,096				(\$1,614,677)			

### Cash Count Variance Summary

The results of the fiscal 2014/2015 quarter four BCLS cash counts show that the average net cash variance decreased relative to fiscal 2014/2015 quarter three.



	2014 / 2015 Cash Variance Summary				2013 / 2014 Cash Variance Summary		
	Total Approved Per GL (\$)	Net Variance	%		Total Approved Per GL (\$)	Net Variance	%
Q1	\$236,536	s.17			\$275,640	s.17	
Q2	\$213,376				\$188,014		
Q3	\$278,433				\$358,047		
Q4	\$300,554				\$263,869		
Total	\$1,028,899	\$5,606	0.54%		\$1,085,570	\$484	0.04%

	2012 / 2013 Cash Variance Summary				2011 / 2012 Cash Variance Summary		
	Total Approved Per GL (\$)	Net Variance	%		Total Approved Per GL (\$)	Net Variance	%
Q1	\$152,500	s.17			\$207,339	s.17	
Q2	\$316,177				\$298,072		
Q3	\$248,650				\$236,601		
Q4	\$365,822				\$311,526		
Total	\$1,083,149	\$2,861	0.26%		\$1,053,538	(\$6,635)	(0.63%)

### Cash Variances Trend Analysis

The results of the average fiscal 2014/2015 BCLS cash counts show consistent cash variances as compared to the last three fiscal years (i.e. fiscal year 2011/2012, 2012/2013, and 2013/2014). Furthermore, all annual average cash variances have been insignificant at under 1%, with the average fiscal 2014/2015 cash variance being 0.54% and the three prior year annual averages being between approximately (0.63)% and 0.26%.

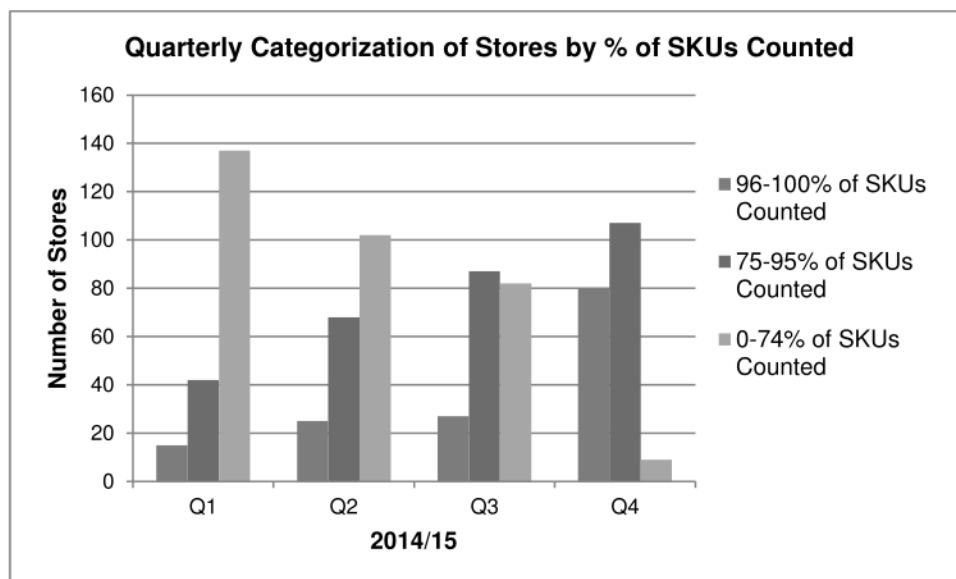
A recap of the fiscal 2014/2015 and the three most recent fiscal year results are as follows:

	Cash Variance Trend	
	(\$)	(%)
<b>2014/2015</b>	5,606	0.54%
<b>2013/2014</b>	484	0.04%
<b>2012/2013</b>	2,861	0.26%
<b>2011/2012</b>	(6,635)	(0.63%)

### Cycle Count Monitoring Summary

The following graph and table classify all stores into one of three cycle count categories:

1. Stores counting 96-100% of SKUs during the quarter
2. Stores counting 75-95% of SKUs during the quarter
3. Stores counting 0-75% of SKUs during the quarter



2014 / 2015 % Counted Categories						
Stores Counting 96-100% of SKUs		Stores Counting 75-95% of SKUs		Stores Counting 0-74% of SKUs		
%#		%#		%#		
Q1	s.17					
Q2						
Q3						
Q4						

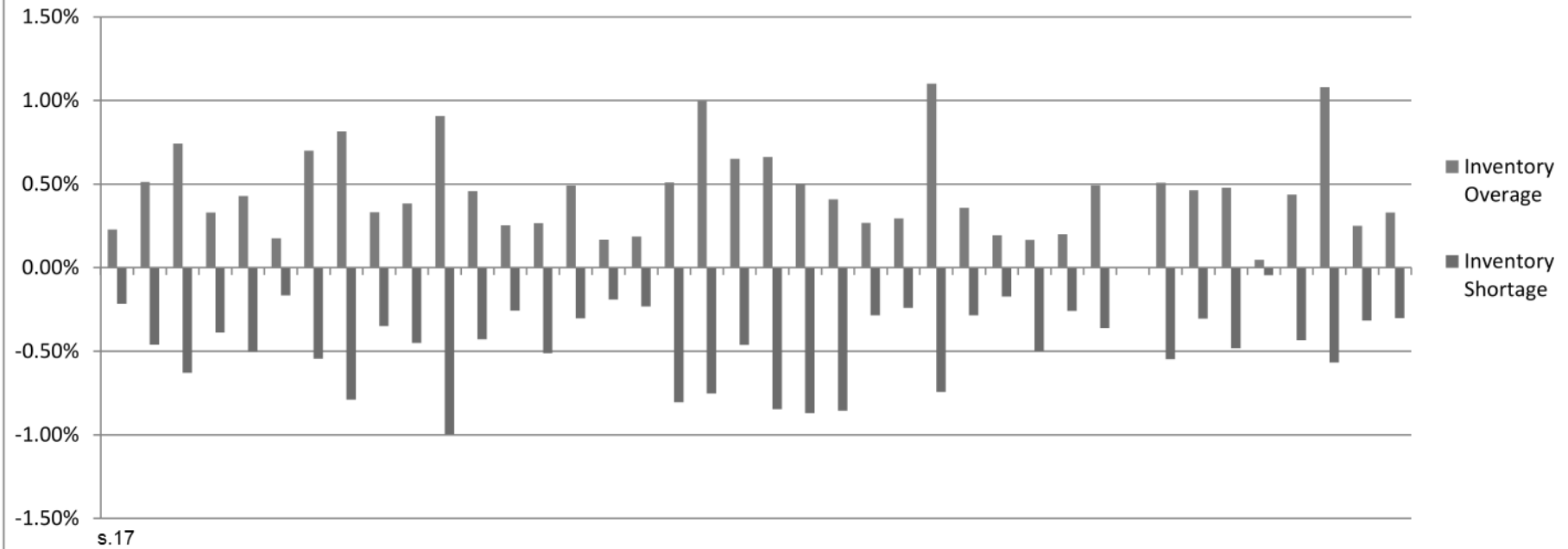
*Note: 9 of the 87 quarter four stores that show as counting 96-100% of SKUs are a result of the inventory and cash counts performed by Internal Audit. The same concept applies to 12 of the 27 quarter three stores, ten of the 25 quarter two stores and eight of the 15 quarter one stores.*

Annual Summary of Inventory Adjustments as a Percentage of Sales

The table and graph below summarize inventory adjustments as a percentage of fiscal year 2014/15 sales for each store audited during fiscal 2014/15.

Inventory Adjustments as a Percentage of Sales by Store - 2014/2015										
Audit #	Store Number	Store Name	Regional Manager	Audit date	2014/15 Sales	Inventory Overage	%	Inventory Shortage	%	Net %
1	s.17		A	27-Apr-14	\$7,624,170	\$17,426	0.23%	(\$16,468)	(0.22%)	0.01%
2			B	28-Apr-14	\$4,727,951	\$24,294	0.51%	(\$21,753)	(0.46%)	0.05%
3			SS	4-May-14	\$20,208,669	\$150,029	0.74%	(\$126,983)	(0.63%)	0.11%
4			A	14-May-14	\$11,217,506	\$37,002	0.33%	(\$43,524)	(0.39%)	(0.06%)
5			A	21-May-14	\$11,273,806	\$48,340	0.43%	(\$56,541)	(0.50%)	(0.07%)
6			SS	25-May-14	\$28,304,899	\$49,631	0.18%	(\$46,946)	(0.17%)	0.01%
7			SS	15-Jun-14	\$12,545,879	\$87,816	0.70%	(\$68,325)	(0.54%)	0.16%
8			SS	22-Jun-14	\$28,777,835	\$234,836	0.82%	(\$227,294)	(0.79%)	0.03%
9			SS	13-Jul-14	\$12,424,798	\$41,203	0.33%	(\$43,397)	(0.35%)	(0.02%)
10			A	14-Jul-14	\$14,265,932	\$54,847	0.38%	(\$64,362)	(0.45%)	(0.07%)
11			B	15-Jul-14	\$4,885,726	\$44,330	0.91%	(\$48,693)	(1.00%)	(0.09%)
12			SS	20-Jul-14	\$14,189,968	\$65,087	0.46%	(\$60,799)	(0.43%)	0.03%
13			A	21-Jul-14	\$13,147,467	\$33,381	0.25%	(\$33,800)	(0.26%)	(0.00%)
14			B	23-Jul-14	\$5,703,832	\$15,213	0.27%	(\$29,172)	(0.51%)	(0.24%)
15			A	11-Aug-14	\$10,611,743	\$52,139	0.49%	(\$32,178)	(0.30%)	0.19%
16			A	12-Aug-14	\$9,842,064	\$16,459	0.17%	(\$18,874)	(0.19%)	(0.02%)
17			B	13-Aug-14	\$4,748,197	\$8,802	0.19%	(\$11,017)	(0.23%)	(0.05%)
18			C	14-Aug-14	\$1,656,275	\$8,445	0.51%	(\$13,354)	(0.81%)	(0.30%)
19			B	2-Oct-14	\$5,298,491	\$52,917	1.00%	(\$39,917)	(0.75%)	0.25%
20			A	5-Oct-14	\$10,208,980	\$66,519	0.65%	(\$47,104)	(0.46%)	0.19%
21			A	16-Oct-14	\$9,178,272	\$60,693	0.66%	(\$77,723)	(0.85%)	(0.19%)
22			A	19-Oct-14	\$11,586,003	\$57,736	0.50%	(\$100,836)	(0.87%)	(0.37%)
23			A	20-Oct-14	\$13,534,887	\$55,260	0.41%	(\$115,828)	(0.86%)	(0.45%)
24			A	22-Oct-14	\$11,001,309	\$29,610	0.27%	(\$31,342)	(0.28%)	(0.02%)
25			A	27-Oct-14	\$9,482,668	\$27,980	0.30%	(\$22,735)	(0.24%)	0.06%
26			C	28-Oct-14	\$3,225,663	\$35,517	1.10%	(\$23,957)	(0.74%)	0.36%
27			B	29-Oct-14	\$7,840,599	\$28,041	0.36%	(\$22,389)	(0.29%)	0.07%
28			A	30-Oct-14	\$8,210,346	\$15,904	0.19%	(\$14,226)	(0.17%)	0.02%
29			B	6-Nov-14	\$6,739,593	\$11,208	0.17%	(\$33,729)	(0.50%)	(0.33%)
30			A	9-Nov-14	\$11,286,889	\$22,665	0.20%	(\$29,296)	(0.26%)	(0.06%)
31			A	25-Jan-15	\$14,451,969	\$71,368	0.49%	(\$52,131)	(0.36%)	0.13%
32			SS	1-Feb-15	\$24,800,597	N/A	N/A	N/A	N/A	N/A
33			SS	15-Feb-15	\$55,368,773	\$281,569	0.51%	(\$303,227)	(0.55%)	(0.04%)
34			B	19-Feb-15	\$7,474,231	\$34,680	0.46%	(\$22,838)	(0.31%)	0.16%
35			A	11-Mar-15	\$13,526,695	\$64,720	0.48%	(\$65,113)	(0.48%)	(0.00%)
36			A	14-Mar-15	\$19,997,733	\$9,523	0.05%	(\$9,015)	(0.05%)	0.00%
37			SS	15-Mar-15	\$14,952,104	\$65,267	0.44%	(\$64,769)	(0.43%)	0.00%
38			B	16-Mar-15	\$3,350,966	\$36,178	1.08%	(\$19,009)	(0.57%)	0.51%
39			B	17-Mar-15	\$4,049,064	\$10,147	0.25%	(\$12,816)	(0.32%)	(0.07%)
40			A	18-Mar-15	\$12,169,274	\$40,172	0.33%	(\$36,769)	(0.30%)	0.03%
<b>Totals</b>					<b>\$493,891,823</b>	<b>\$2,066,953</b>	<b>0.42%</b>	<b>(\$2,108,249)</b>	<b>(0.43%)</b>	<b>(0.01%)</b>

## Inventory Adjustments as a Percentage of Sales



## Additional Audit Findings

The following observations were noted while performing the audit procedures for inventory, cash, Imprest records, Litter records and PCI compliance.

### Inventory

Of the 10 stores audited:

- One store (10%) had six staged orders greater than 3 months old still sitting in its warehouse at the count date (BCLS s.17

### Cash

Of the 10 stores audited:

- Two stores (20%) had excess on-hand Imprest cash of between \$3,000 and \$9,500 at the count date due to unpaid coin orders (BCLS s.17 and s.17

### Imprest Records

Of the 10 stores audited:

- One store (10%) ordered an annual newspaper subscription without prior authorization. As such, Store Operations notified the store and the subscription was cancelled and a refund obtained (BCLS s.17
- One store (10%) had two months of Imprest reconciliations that had to be redone by Finance as the reconciliations did not balance (BCLS s.17

### Litter Records

Of the 10 stores audited and for dates between the financial period start and the audit count date:

- Four stores (40%) did not perform daily Litter counts (**see bolded font**). However, the overall percentage of daily litter counts relative to the number of available business days was 86%.

% of Daily Litter Counts by Store - Q4 2014/2015							
Audit #	Store Number	Store Name	Regional Manager	Audit date	# of Available Business Days for Counts	# of Daily Litter Counts	% of Daily Litter Counts
31	s.17		8	25-Jan-15	18	16	89%
32			8	1-Feb-15	1	1	100%
33			9	15-Feb-15	15	15	100%
34			8	19-Feb-15	15	15	100%
35			1	11-Mar-15	4	4	100%
36			0	14-Mar-15	N/A	N/A	N/A
37			4	15-Mar-15	15	10	67%
38			4	16-Mar-15	13	12	92%
39			4	17-Mar-15	14	7	50%
40			4	18-Mar-15	15	15	100%
	<b>Totals</b>				<b>110</b>	<b>95</b>	<b>86%</b>

Note: As store #231 is a wholesale center, they do not have litter.

- s.13,s.17 had daily Litter over/short occurrences of greater than s.15,s.17  
s.15,s.17



Litter Over/Short by Store - Q4 2014/2015														
Audit #	Store Number	Store Name	Regional Manager	Audit date	Net Daily Litter Over/ Short		% Counts with Over/Short >\$40	% Over/Short >\$40 Reported						
					Average	Median								
31	s.17		8	25-Jan-15	s.17									
32			8	1-Feb-15										
33			9	15-Feb-15										
34			8	19-Feb-15										
35			1	11-Mar-15										
36			0	14-Mar-15										
37			4	15-Mar-15										
38			4	16-Mar-15										
39			4	17-Mar-15										
40			4	18-Mar-15										
			AVERAGES/MEDIANS						\$77.36	\$59.45	60%	16%		

Note: Daily overs/shorts are calculated by comparing the store's assigned Litter balance to its daily Litter count.

### PCI Compliance

Of the 10 stores audited and 60 pin pads observed:

- All stores had present and appropriately maintained visitor logs and properly secured credit/debit receipts.
- Two stores (20%) had pin pad related concerns:
  - a. One store had their pin pads glued to the countertops (8 pin pads or 13% of total pin pads observed) (BCLS #s.17, and
  - b. One store had illegible anti-tampering stickers on their pin pads (5 pin pads or 8% of total pin pads observed) (BCLS #s.17).



INTERNAL AUDIT REPORT

Report Date:	June 24, 2015
Store Number:	s.17
Store Name:	
Store Type:	
Store Manager:	
Regional Manager:	
Internal Auditor:	
Distribution Lists:	
Store Statistics (Current Year):	
Sales:	s.17 P1
Staff Count (Full Time):	6
Staff Count (Part Time):	8
Shrink:	\$(9,685.87) P1
Competition:	0

AUDIT REPORT OVERVIEW

Overall Score: 71.1%

**Overview:**  
The objective of the store audit was to assess the effectiveness of store level controls, and to provide recommendations for improvement in store operation and profitability. The framework for assessment used is the Internal Control Matrix, which was developed based on store level processes and policies.

Risk ratings indicated for particular issues are pre-determined in context of retail practice and the British Columbia Liquor Distribution Branch policies. Risk ratings for each issue are the same across stores; yet the magnitude of any particular issue may differ.

Audit results by process and control counts along with and Issue Summary is provided on page 2.

A recommended action plan is developed to improve effectiveness of internal controls at store level. Audit issues, relevant risks, risks ratings and recommendations are presented in the report. Risk rating serves as a tool to assist Store Managers and Regional Managers in implementing the action plan based on recommendations provided and to provide a benchmark against which store performances can be compared.

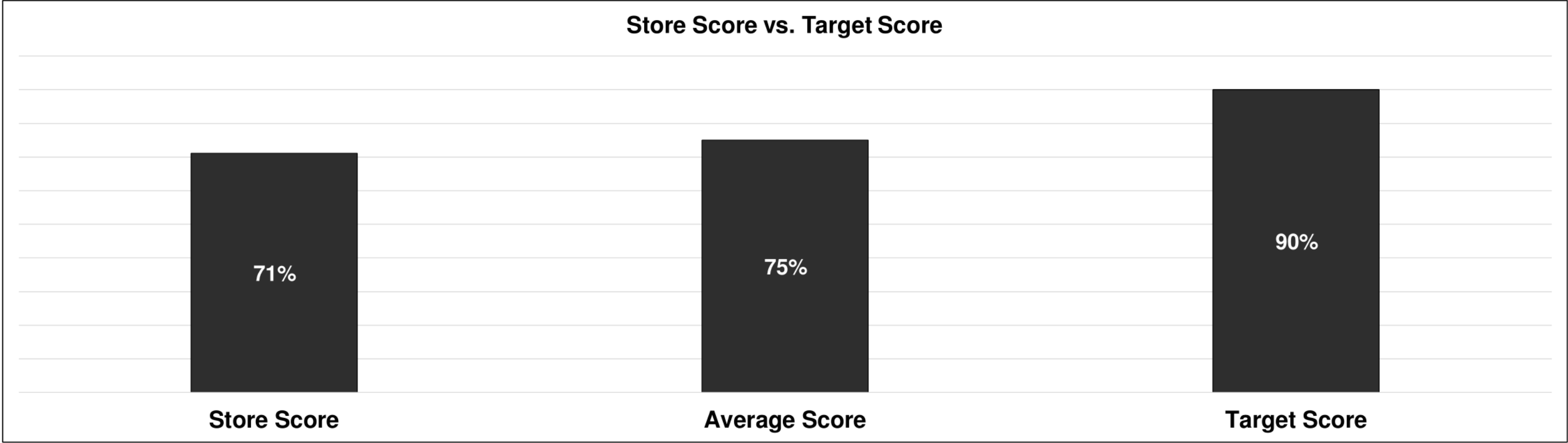
During the audit, the Store Managers and team were involved in the process of reviewing, discussing and responding to issues found. The Internal Audit Department appreciates the co-operation of the Store Managers and their teams for their assistance with the audit process.

Store Manager Comments:
(Store Managers may provide overall comments in addition to detailed comments)

Regional Manager Comments:
(Store Managers may provide overall comments in addition to detailed comments)



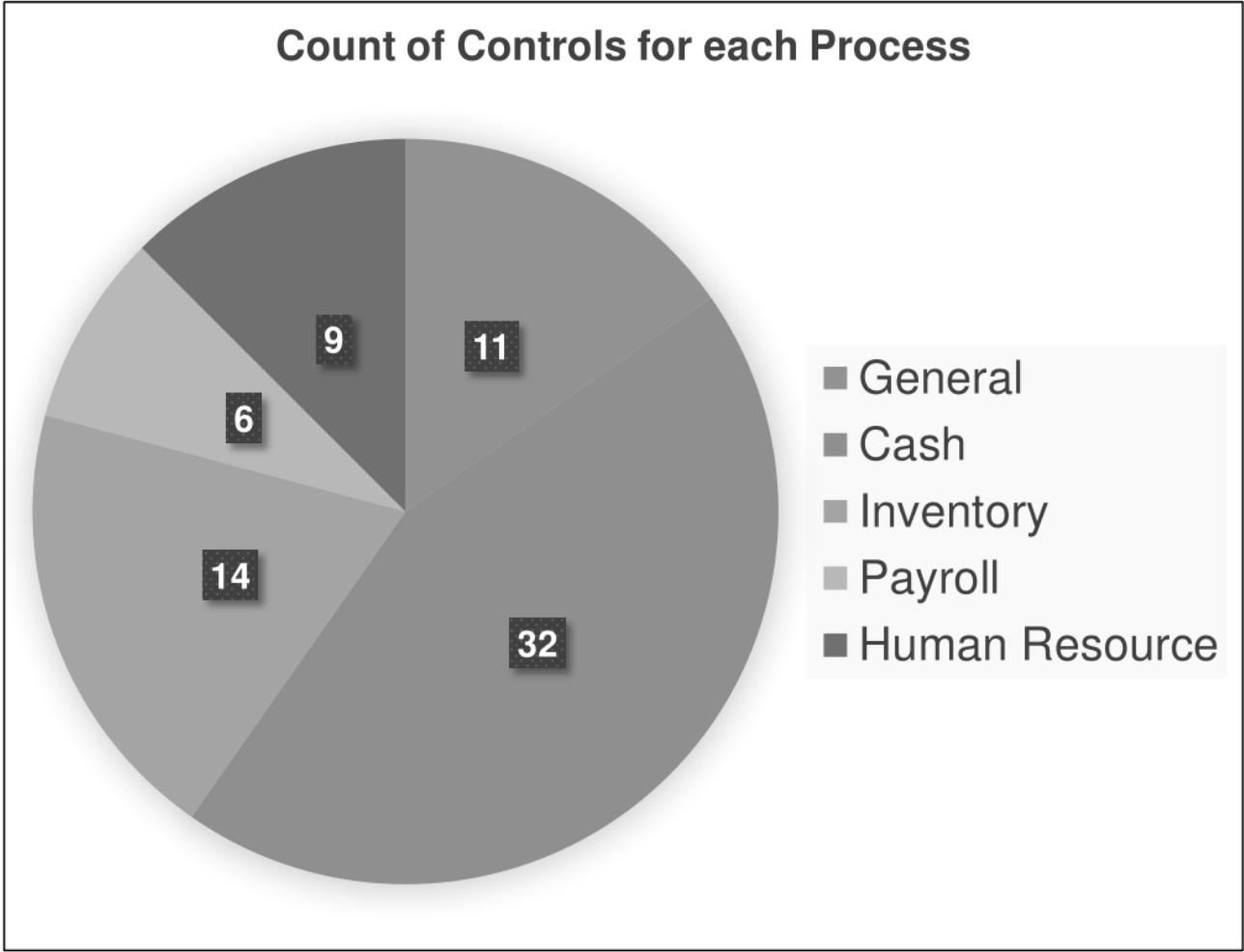
AUDIT RESULTS BY STORE PROCESS



Audit Score by Process

Section Number	Store Process	Score (%)
A	General	69.6%
B	Cash	80.9%
C	Inventory	71.4%
D	Payroll	81.8%
E	Human Resource	31.6%
Store Score		71.1%

Note:	
Green (Over 75%)	Controls Operating Effectively
Yellow (50%-74%)	Improvement Areas Noted
Red (Below 50%)	Action Required



ISSUES SUMMARY			
Store Process	Issue Reference	Risk Rating	Issue
A. GENERAL	A1.	s.13, s.15	
A. GENERAL	A2.		
A. GENERAL	A3.		
A. GENERAL	A4.		
B. CASH	B1.		
B. CASH	B2.		
B. CASH	B3.		
B. CASH	B4.		
B. CASH	B5.		
B. CASH	B6.		
B. CASH	B7.		
B. CASH	B8.		
C. INVENTORY	C1.		
C. INVENTORY	C2.		
C. INVENTORY	C3.		
C. INVENTORY	C4.		
C. INVENTORY	C5.		
C. INVENTORY	C6.		
D. PAYROLL	D1.		
D. PAYROLL	D2.		
E. HUMAN RESOURCE	E1.		
E. HUMAN RESOURCE	E2.		
E. HUMAN RESOURCE	E3.		
E. HUMAN RESOURCE	E4.		
E. HUMAN RESOURCE	E5.		
E. HUMAN RESOURCE	E6.		
E. HUMAN RESOURCE	E7.		

DISCUSSION OF AUDIT ISSUES

A. GENERAL

A1.

Store Security

Control Matrix #

4

s.13,s.15

Risk Rating -

High

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

A2.

Control Matrix #

5

s.13,s.15

Risk Rating -

Low

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

A3.

Store Security

Control Matrix #

7

s.13,s.15

Risk Rating -

High

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

A4.

Record Keeping

Control Matrix #

10

s.13

Risk Rating -

Low

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

B. CASH

B1.

Cash Handling

Control Matrix #

15

s.13,s.15

Risk Rating -

Medium

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

B2.

Cash Handling

Control Matrix #

16

s.13,s.15

Risk Rating -

High

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

(Observation only. No points deducted)

B3.

Cash Handling

Control Matrix #

17

s.13,s.15

Risk Rating -

High

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

(Observation only. No points deducted)

B4.

Cashier Tills

Control Matrix #

24

s.13,s.15

Risk Rating -

High

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

B5.

Cashier Tills

Control Matrix #

25

s.13,s.15

Risk Rating -

Medium

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

B6.

Cashier Tills

Control Matrix #

33

s.13,s.15

Risk Rating -

Medium

Issue:

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

B7.

Imprest Bank Account

Control Matrix #

40

Risk Rating -

Low

Issue:

s.13

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

B8.

Litter

Control Matrix #

41

Risk Rating -

High

Issue:

s.13

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

C. INVENTORY

C1.

Quality Control

(Observation only. No points deducted)

Control Matrix #

46

Risk Rating -

High

Issue:

s.13

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

C2.

Storage

Control Matrix #

50

Risk Rating -

High

Issue:

s.13

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

C3.

Storage

Control Matrix #

52

Risk Rating -

Medium

Issue:

s.13, s.17

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

C4.

Storage

(Observation only. No points deducted)

Control Matrix #

53

Risk Rating -

Low

Issue:

s.13

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

C5.

Storage

Control Matrix #

54

Risk Rating -

Low

Issue:

s.13

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

C6.

Storage

Control Matrix #

56

Risk Rating -

Medium

Issue:

s.13

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

D. PAYROLL

D1.

Hours Worked

(Observation only. No points deducted)

Control Matrix #

61

Risk Rating -

Medium

Issue:

s.13, s.17

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

D2.

Hours Worked

Control Matrix #

63

Risk Rating -

Medium

Issue:

s.13, s.17

Audit Findings:

Risk:

Recommendation:

Store Manager Comments:

Internal Audit Remark:

E. HUMAN RESOURCE

E1. Hiring (Observation only. No points deducted)

Control Matrix #	64	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

E2. Hiring

Control Matrix #	66	Risk Rating -	High
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

E3. Hiring

Control Matrix #	67	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

E4. Hiring

Control Matrix #	69	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

E5. Privacy

Control Matrix #	70	Risk Rating -	High
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

E6. Safety

Control Matrix #	71	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

E7. Safety

Control Matrix #	72	Risk Rating -	Low
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			



## **BC LIQUOR DISTRIBUTION BRANCH**

### **Internal Audit Report**

#### **Follow-Up Review**

#### **Information Technology General Control (ITGC) For the Fiscal Year 2013 – 2014**

**June 30, 2015**

<b>Distribution:</b>	Erin McEwan Elaine Low	Director, IT Risk & Support Services Director, Financial Planning and Reporting
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<b>Prepared by:</b>	Annie Leung	Information Systems Auditor
<b>Reviewed by:</b>	Patrick Seeley	Director, Internal Audit

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## Background

Price Waterhouse Coopers (PwC) issued a report on the Information Technology General Controls (ITGC) audit as part of the external financial audit of LDB for the fiscal year ended March 31, 2014. At the request of the Chief Financial Officer and Director, Financial Planning & Reporting, Internal audit was requested to perform a formal follow-up on the implementation status of the issues identified within the PwC fiscal 2014 ITGC report.

The ITGC audit was focussed on conducting tests of management's internal controls in three IT areas including:

- Program Changes – routine and non-routine changes to financial systems, data and supporting infrastructure;
- Access to programs and data – authentication and user access administration over the network, financial systems and supporting productions database, audit logging and monitoring, allocation of privileged access across financial applications and infrastructure and physical security;
- Computer Operations – day to day operations of real-time and batch jobs scheduled by end users/IT and monitored by IT personnel for any problems/failures including transactional data and backup, logging and monitoring of security incidents or operational problems of the financial systems.

In the 2014 ITGC report, PwC's follow up of the previous year findings as part of the 2014 audit and categorized the status of all issues as follows (the suffixed number is the number of issues with that status):

- Closed – Prior year observation has been fully addressed by management and no exceptions were noted. (4)
- Partially Addressed – The planned / intended action plans for prior year's observations were not fully completed before March 31, 2014 and these have carried forward to current year's observations. (5)
- Open – Prior year observation has not been addressed and is carried forward to current year's observations. (1)
- New – Reflects observation is identified as part of the current year audit. (8)

## Internal Audit Review Objective & Scope

The objective of the follow up work performed is to provide management the status of all audit recommendations provided by PwC in the April 2014 Internal Controls Recommendations report. The scope of the follow-up included all partially addressed, open, and new audit issues and their related recommendations.

## Not in Scope

Determination if the implemented controls resolve the underlying issues.

## Internal Audit Approach

In order to obtain an understanding on the actions taken to address the recommendations provided by PwC the following procedures were performed:

- Request and review the issue remediation status report and tracking schedule as prepared by IT Security of all planned action items as performed by various IT departments and business users;
- Review and discuss the status of all resolved and unresolved remediation activities as disclosed in the remediation status report with Director IT Risk;
- Perform a review of process risk and control documentation to understand the risk assessment and related control designs to identify any risks considered not adequately mitigated;
- Identify and report any other issues for consideration by management as deemed relevant by Internal Audit based on the procedures performed.

## ITGC 2014 Remediation Summary and Status Report by IT Security

IT Security collected status information and sent two reports to Internal Audit on February 4, 2015. The two reports included a Remediation Summary Report and a Remediation Status Report with narratives.

Audit issues are listed with the following statuses (the suffixed number is the number of issues with that status):

- Closed – issue has been addressed or the risk accepted by management. (7)
- Partially Addressed – The planned / intended action plans from previous years were not fully completed by January 31, 2015. (5)
- Remediation in progress – Remediation strategy is identified, and to be implemented. (7)
- Open – No remediation strategy identified yet. (2)

Up to January 31, 2015, there were 3 issues closed.

## ITGC Follow up Internal Audit Observations and Recommendations

1. s.13

### Recommendations:

1. s.13

### *Management Response*

s.13



s.13,s.17

### **IT Security Status Summary Reports as at January 31, 2015 (for reference)**

The ITGC Remediation Summary Report has been included in Appendix A of this report. Additionally, a more detailed issue remediation tracking report has been provided by IT Security but not included in this report, but is available upon request.

## Appendix A - ITGC 2014 Audit – Remediation Status Summary (Prepared by LDB IT Security on Feb 04, 2015)

Observation Theme	Observation Title	Year Reported	Remediation Status as of Jan. 31, 2015 [1]
<b>Physical Access</b>	s.15,s.17	2013	Closed
<b>User Access Administration</b>		2013	Closed
		2012, 2013, 2014	Partially Addressed, Remediation in progress
		2014	Closed
		2014	Closed
<b>User Authentication and Access</b>		2012, 2013, 2014	Open
		2013	Closed
		2013	Closed
		2013, 2014	Partially Addressed, Remediation in progress
		2012, 2013, 2014	Partially Addressed, Remediation in progress
		2014	Open
		2014	Remediation in progress
		2014	Remediation in progress
		2014	Remediation in progress

Observation Theme	Observation Title	Year Reported	Remediation Status as of Jan. 31, 2015 [1]
System Configuration and Logging	s.15,s.17	2012, 2013, 2014	Partially Addressed
		2012, 2013, 2014	Partially Addressed
Monitoring of Backup & Problem Tickets		2014	Closed
2014		Remediation in progress	

Note:

[1] Issues status:

- Closed – issue has been addressed or the risk accepted by management.
- Partially Addressed – The planned /intended action plans from previous years were not fully completed by January 31, 2015.
- Remediation in progress – Remediation strategy is identified, and to be implemented.
- Open – No remediation strategy identified yet.

Please see accompanied “ITGC Audit – Remediation Status – v20150204.xlsx” for further details.



**LIQUOR  
DISTRIBUTION  
BRANCH**

**BC LIQUOR DISTRIBUTION BRANCH**

**2015/2016 First Quarter BC Liquor Stores Audit & Cycle Count Monitoring  
Summary Report**

**July 15, 2015**

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## Executive Summary

This report provides the detailed findings for the nine BC Liquor Store (BCLS) audit counts performed in the first quarter of fiscal 2015/16. The procedures performed included primarily a count of on-hand liquor and store cash, with additional audit procedures performed surrounding PCI compliance and Imprest and litter cash processes. Additionally for all stores a review and analysis of actual inventory cycle counting completion percentages was performed and reported on.

Relative to the fiscal 2012/13 to 2014/15 first quarter average, the fiscal 2015/16 first quarter results show lower percentages of:

- SKUs adjusted
- Total inventory adjusted based upon total display value
- Total inventory adjusted based upon units
- Cash variances

Although we did not verify the root cause of these lower percentages, inventory adjustments in all three categories were likely lower due to the high cycle count compliance rate from fiscal 2014/15 quarter 4 (BCLS average of 92% of SKUs counted) which increased the accuracy of inventory prior to the fiscal 2015/16 quarter one audit counts.

	FY15/16 Q1 Results	Q1 Average Based on FY12/13 to 14/15 Results
<b>SKUs</b>	s.17	
Adjusted		
% Adjusted		
<b>Inventory Overages (Display \$)</b>		
Adjusted		
% Adjusted (Note 1)		
% Adjusted (Note 2)		
<b>Inventory Shortages (Display \$)</b>		
Adjusted		
% Adjusted (Note 1)		
% Adjusted (Note 2)		
<b>Inventory Overages (Units)</b>		
Adjusted		
% Adjusted		
<b>Inventory Shortages (Units)</b>		
Adjusted		
% Adjusted		
<b>Cash Variance</b>		
Variance		
% Variance		

(1): Adjustment as a percentage of inventory display value.

(2): Adjustment as a percentage of sales. Note the Q1 average is based on FY14/15 results as this measure was not tracked for FY12/13 and FY13/14.

Other findings identified during the first quarter audit counts of nine stores included:

- cash and Imprest account issues, including:
  - excess on-hand Imprest cash due to unpaid coin orders at one store (page 10);
  - continuity breaks in cheque sequences at two store (page 10);
- daily Litter counts executed s.15, of the time with s.15,s.17 and
- an illegible anti-tampering sticker on a pin pad at one store (page 12).

The cycle count monitoring data obtained for quarter one shows that the average percentage of SKUs counted during the quarter was 74% (stores are expected to count 100% of SKUs each quarter).

Furthermore, 52 stores (27%) counted 100% of SKUs during the quarter of which 9 were attributable to counts performed by Internal Audit. If these Internal Audit counts are excluded, only 43 stores (22%) achieved the quarterly target of counting 100% of their on hand inventory.

## Objectives

For each of the nine BC Liquor Stores (BCLS) attended during the period the key engagement objectives were to obtain information regarding:

1. on-hand inventory at the fieldwork date in relation to the store's inventory per the RMS perpetual inventory sub-ledger;
2. on-hand cash at the fieldwork date in relation to the approved general ledger balance;
3. adherence to quarterly cycle counts of 100% of inventory;
4. the appropriateness of and support for the current period's Imprest transactions;
5. management of Litter; and
6. adherence to select PCI standards.

## Audit Scope & Approach

The nine BCLSs attended during the period were visited between April 28 and June 3, 2015 and included the following locations (audit count engagements #1-9):

Audit #	Store #	Store Name	Regional Manager	Audit Count Fieldwork Date
1	s.17		2	28-Apr-15
2			2	3-May-15
3			2	5-May-15
4			5	10-May-15
5			5	11-May-15
6			5	13-May-15
7			1	1-Jun-15
8			5	2-Jun-15
9			5	3-Jun-15

Specific audit count procedures performed included:

### Inventory

1. performed a 100% count of all on-hand liquor inventory at each store audited using a third party count team under the direction of the Liquor Distribution Branch (LDB) Store Auditor;
2. compared actual on-hand liquor inventory to the on-hand stock per the RMS perpetual inventory sub-ledger as at the time the count was performed;
3. reviewed and investigated identified variances between actual on-hand inventory and the inventory sub-ledger, on a sample basis;
4. facilitated the posting of inventory variance adjustments to the store inventory system to reflect on-hand inventory, with authorization from the BCLS Manager and the assistance of the LDB Support Centre; and
5. tested a sample of recent receiving and shipping transactions to ensure appropriate inventory cut-off.

### Cash

Performed a 100% count of on-hand cash followed by a reconciliation of on-hand cash to approved cash balances per the LDB general ledger. This reconciliation supports that cash has been properly reflected in the branch financial records.

### Additional Audit Count Procedures

In addition to the above noted procedures, Internal Audit performed the following additional steps when performing a store audit count:

1. Imprest records – reviewed the most recently completed Imprest Cash Account reconciliation (to be able to reconcile store funds to the approved funds per the LDB general ledger); reviewed the



current month's paid invoices (to ensure payments are supported by the original invoices, the invoiced amount agrees to the amount recorded in the store cheque book, and all invoices appeared to be for legitimate store expenditures); and reviewed the cheque book for issued and unissued cheques (to ensure all cheques and/or cheque stubs are present as appropriate).

2. Litter records – reviewed Litter transactions between the financial period start and the audit count date to determine if daily Litter counts are occurring and to evaluate the Litter overs/shorts resulting from the Litter counts and if they are being reported.
3. PCI compliance – confirmed the existence of and use of visitor logs; observed pin pads are properly secured, have anti-tampering decals in place, and the decals have not been compromised; and confirmed credit/debit receipts are properly secured.

#### Cycle Count Monitoring

Analyzing the completion of quarterly store inventory cycle counts performed in accordance with Branch policy, which requires each Store to count 100% of SKUs each quarter.

### Audit Count Results

#### Inventory Count Results – Q1 Fiscal 2015/16

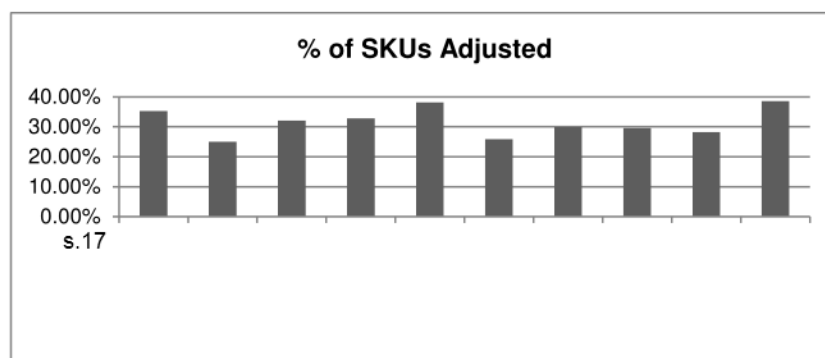
The following section summarizes the results of all nine inventory counts performed in the quarter based upon the following measures:

- total SKUs adjusted; and
- total and net inventory overages and shortages.

The first quarter audit count results are also compared to the quarter one averages for these measures (based on fiscal year 2012/13, 2013/14 and 2014/15 data) or the fiscal 2014/15 quarter one average if the cumulative quarter one average is not available.

#### Total SKUs Adjusted

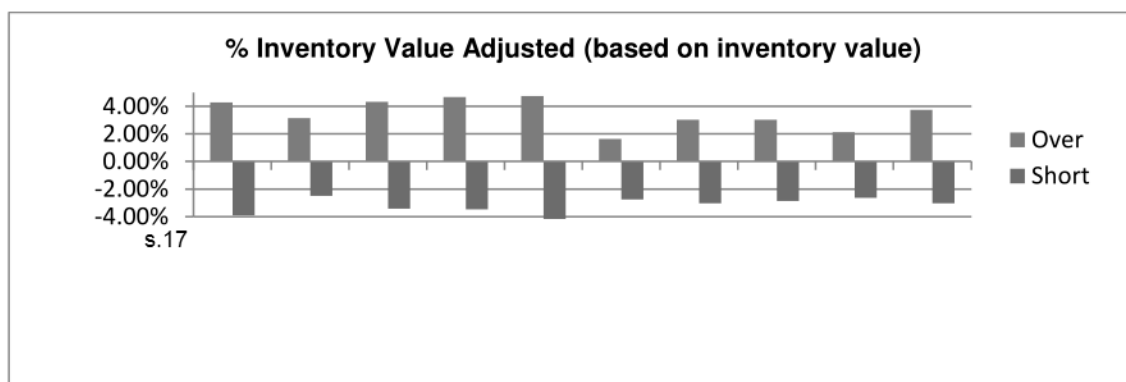
The results of the fiscal 2015/16 quarter one BCLS inventory counts show that only two stores (22% of stores counted) had SKU adjustment percentages greater than the fiscal 2012/13 to 2014/15 quarter one average (**see bolded font**). The remaining seven stores had SKU adjustment percentages below the average.



Total SKU Adjustments by Store - Q1 2015/16							
Audit Count #	Store Number	Store Name	Regional Manager	Audit Count Date	Total	Adjusted	%
1	s.17		2	28-Apr-15	2,232	s.17	
2			2	3-May-15	3,310		
3			2	5-May-15	2,452		
4			5	10-May-15	3,786		
5			5	11-May-15	1,468		
6			5	13-May-15	2,268		
7			1	1-Jun-15	1,580		
8			5	2-Jun-15	2,444		
9			5	3-Jun-15	2,352		
Totals					21,892	6,987	31.92%
Q1 Average Based on FY12/13 to FY14/15 Results						7,824	35.22%

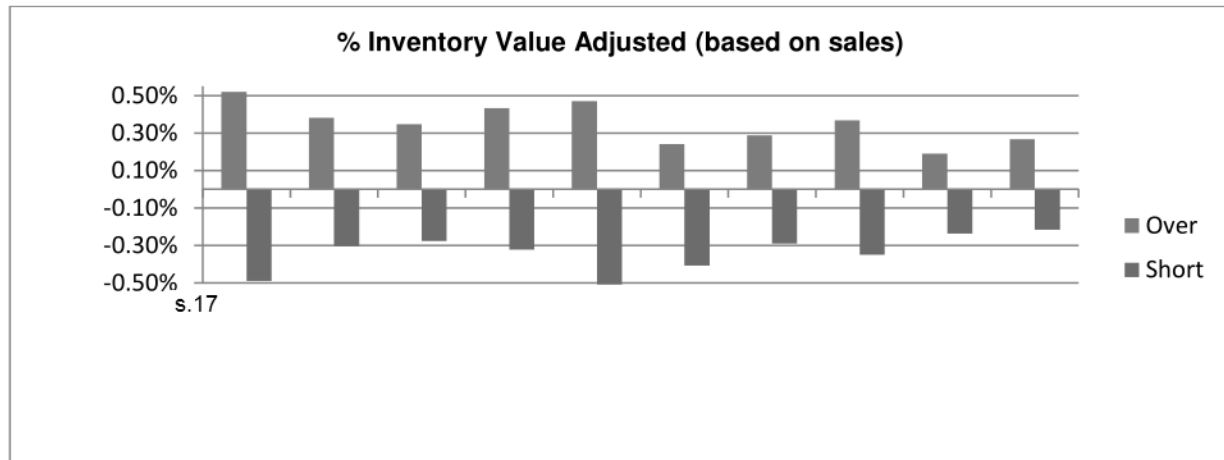
Total and Net Inventory Overages and Shortages

The results of the fiscal 2015/16 quarter one BCLS inventory counts show that based on inventory display dollars and inventory units the highest net inventory overage/shortage was 1.2% and 1.1% respectively (BCLS s.17 and three stores (33%) were below or consistent with the 2012/13 to 2014/15 quarter one average (based on the absolute percentage). Whereas based on sales the highest net inventory overage/shortage was 0.17% (BCLS s.17 and five stores (56%) were below or consistent with the 2014/15 quarter one average.



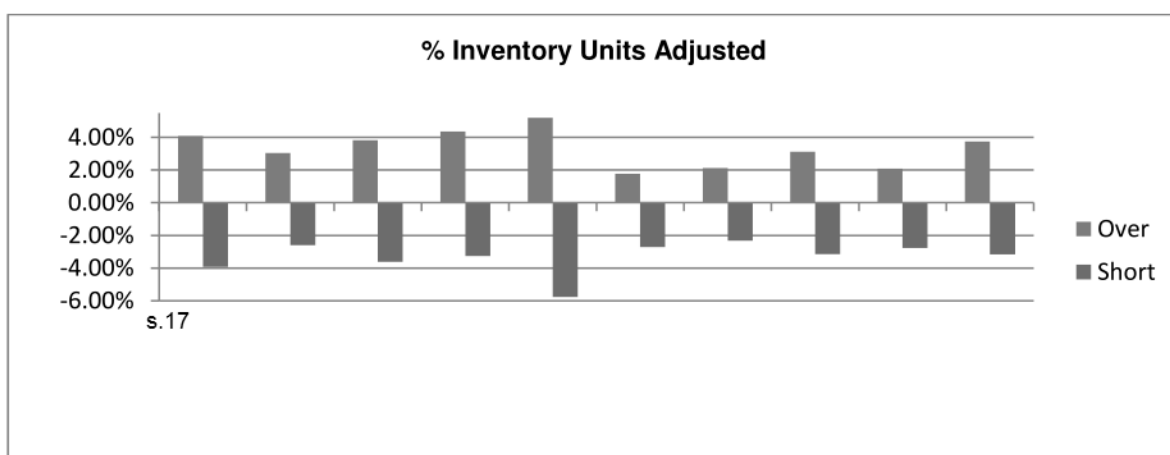
Inventory Value Adjusted by Store, as a Percentage of Inventory Value - Q1 2015/16										
Audit Count #	Store Number	Store Name	Regional Manager	Audit Count Date	Inventory Value (Display \$)					
					Total	Over	%	Short	%	Net %
1	s.17		2	28-Apr-15	\$535,194	s.17				
2			3-May-15	\$1,204,525						
3			5-May-15	\$696,264						
4			10-May-15	\$1,321,955						
5			11-May-15	\$446,425						
6			13-May-15	\$749,431						
7			1-Jun-15	\$532,258						
8			2-Jun-15	\$723,947						
9			3-Jun-15	\$735,604						
Totals					\$6,945,602	\$253,171	3.65%	(\$238,329)	(3.43%)	0.21%
Q1 Average Based on FY12/13 to FY14/15 Results						\$401,467	4.29%	(\$367,948)	(3.91%)	0.37%

\*\* Net adjustments below or consistent with the 2012/13 to 2014/15 quarter one average (by absolute %)



Inventory Value Adjusted by Store, as a Percentage of Sales - Q1 2015/16										
Audit Count #	Store Number	Store Name	Regional Manager	Audit Count Date	FY14/15 Sales	Inventory Overage	%	Inventory Shortage	%	Net %
1	s.17		2	28-Apr-15	\$4,408,046	s.17				
2			2	3-May-15	\$14,982,330					
3			2	5-May-15	\$7,548,789					
4			5	10-May-15	\$13,380,433					
5			5	11-May-15	\$3,010,862					
6			5	13-May-15	\$7,848,977					
7			1	1-Jun-15	\$4,373,334					
8			5	2-Jun-15	\$8,056,687					
9			5	3-Jun-15	\$10,326,349					
<b>Totals</b>					<b>\$73,935,807</b>	<b>\$253,171</b>	<b>0.34%</b>	<b>(\$238,329)</b>	<b>(0.32%)</b>	<b>0.02%</b>
<b>Q1 Average Based on FY14/15 Results</b>						<b>\$401,467</b>	<b>0.52%</b>	<b>(\$367,948)</b>	<b>(0.49%)</b>	<b>0.03%</b>

\*\* Net adjustments below or consistent with the 2014/15 quarter one average (by absolute %)



Inventory Units Adjusted by Store - Q1 2015/16										
Audit Count #	Store Number	Store Name	Regional Manager	Audit Count Date	Units					
					Total	Over	%	Short	%	Net %
1	s.17		2	28-Apr-15	29,044	s.17				
2			2	3-May-15	68,611					
3			2	5-May-15	38,134					
4			5	10-May-15	62,497					
5			5	11-May-15	24,803					
6			5	13-May-15	56,711					
7			1	1-Jun-15	30,424					
8			5	2-Jun-15	38,020					
9			5	3-Jun-15	38,078					
<b>Totals</b>					<b>386,322</b>	<b>13,238</b>	<b>3.43%</b>	<b>(13,271)</b>	<b>(3.44%)</b>	<b>(0.01%)</b>
<b>Q1 Average Based on FY12/13 to FY14/15 Results</b>						<b>17,089</b>	<b>4.07%</b>	<b>(16,736)</b>	<b>(3.93%)</b>	<b>0.14%</b>

*\*\* Net adjustments below or consistent with the 2012/13 to 2014/15 quarter one average (by absolute %)*

### Cash Count Results – Q1 Fiscal 2015/16

The following tables and graph provide detailed results of all nine cash counts performed in the quarter, including a breakdown of store cash overages/shortages into their source components and a comparison to the 2012/13 to 2014/15 quarter one average. Overall, all stores had cash overs/shorts less than 1% and seven stores (77%) had cash overages/shortages below or consistent with the 2012/13 to 2014/15 quarter one average (based on the absolute percentage). Also, approximately s.15,s.17

Imprest Cash Over / (Short) by Store - Q1 2015/16											
Audit Count #	Store Number	Store Name	Regional Manager	Audit Count Date	Total Approved per GL						
						Over	%	(Short)	%	Net	Net %
1	s.17		2	28-Apr-15	\$24,400	s.17					
2			2	3-May-15	\$34,382						
3			2	5-May-15	\$31,000						
4			5	10-May-15	\$32,000						
5			5	11-May-15	\$13,000						
6			5	13-May-15	\$23,000						
7			1	1-Jun-15	\$7,030						
8			5	2-Jun-15	\$24,000						
9			5	3-Jun-15	\$20,000						
<b>Totals</b>					<b>\$208,811</b>	<b>\$304</b>	<b>0.15%</b>	<b>(\$115)</b>	<b>(0.05%)</b>	<b>\$189</b>	<b>0.09%</b>
<b>Q1 Average Based on FY12/13 to FY14/15 Results</b>										<b>\$794</b>	<b>0.36%</b>

*\*\* Cash overages/shortages below or consistent with the 2012/13 to 2014/15 quarter one average (by absolute %)*



Imprest Cash Over / (Short) Breakdown by Store - Q1 2015/16									
Audit Count #	Store Number	Store Name	Regional Manager	Audit Count Date	Net Over/ Short	Portion Found in Litter	%	Portion Found in Imprest	%
1	s.17		2	28-Apr-15	s.17				
2			2	3-May-15					
3			2	5-May-15					
4			5	10-May-15					
5			5	11-May-15					
6			5	13-May-15					
7			1	1-Jun-15					
8			5	2-Jun-15					
9			5	3-Jun-15					
Totals					\$189	s.17			
Average Based on FY14/15 Results					\$ 1,593				

## Additional Audit Findings

The following observations were noted while performing the audit count procedures for inventory, cash, Imprest records, Litter records and PCI compliance.

### Cash

Of the nine stores audited one store (11%) had excess on-hand Imprest cash of \$5,000 at the count date due to an unpaid coin order (BCLS s.17

### Imprest Records

Of the nine stores audited two stores (22%) had continuity breaks in their cheque sequences:

- BCLS # s.17 had two continuity breaks in their cheque sequence, one of 400 cheques and the other of 997,989 cheques. Store management was unable to explain the gaps as they inherited the cheque sequence and books from previous store management. However, it was noted that when stores order new cheques they can arbitrarily select the starting sequence number, which can result in cheque sequence gaps.
- BCLS # s.17 had a continuity break of 66 cheques in their cheque sequence which the new store manager could not explain as they inherited the cheque sequence and books from the previous store manager.

### Litter Records

Of the nine stores audited and for dates between the financial period start and the audit count date:

- Two stores (22%) did not perform daily Litter counts (**see bolded font**). However, the overall percentage of daily litter counts relative to the number of available business days was 88%. This is comparable with the fiscal 2014/15 average of 89%.

% of Daily Litter Counts by Store - Q1 2015/16							
Audit Count #	Store Number	Store Name	Regional Manager	Audit Count Date	# of Available Business Days for Counts	# of Daily Litter Counts	% of Daily Litter Counts
1	s.17		2	28-Apr-15	26	s.17	
2			2	3-May-15	1		
3			2	5-May-15	3		
4			5	10-May-15	8		
5			5	11-May-15	9		
6			5	13-May-15	11		
7			1	1-Jun-15	2		
8			5	2-Jun-15	3		
9			5	3-Jun-15	4		
Totals					67	59	88%
Average Based on FY14/15 Results							89%

- s.15,s.17 had daily Litter over/short occurrences of greater than s.15,s.17. These percentage occurrences are lower than the fiscal 2014/15 averages s.15, over/short occurrences of greater than s.15 and s.15 of occurrences reported to Head Office). Overall, the range in average daily Litter overs/shorts for quarter one BCLS audit counts was s.15,s.17 with the average and median being s.15 and s.15 respectively. These are lower than the fiscal 2014/15 average and median of s.15, and s.15 respectively.



Litter Over/Short by Store - Q1 2015/16								
Audit Count #	Store Number	Store Name	Regional Manager	Audit Count Date	Net Daily Litter Over/Short		% Counts with Over/Short >\$40	% Over/Short >\$40 Reported
					Average	Median		
1	s.17		2	28-Apr-15	s.17			
2			3-May-15					
3			5-May-15					
4			10-May-15					
5			11-May-15					
6			13-May-15					
7			1-Jun-15					
8			2-Jun-15					
9			3-Jun-15					
Averages/Medians					s.15,s.17			
Average Based on FY14/15 Results								

*Note: Daily overs/shorts are calculated by comparing the store's assigned Litter balance to its daily Litter count.*

### PCI Compliance

Of the nine stores audited and 45 pin pads observed:

- All stores had present and appropriately maintained visitor logs and properly secured credit/debit receipts.
- One store (11%) had an illegible anti-tampering sticker on a pin pad (2% of total pin pads observed) (BCLS s.17)

## **Audit Count Results Analysis**

### Comparative Audit Count Results and Analysis – 2012/13, 2014/15 and 2015/16

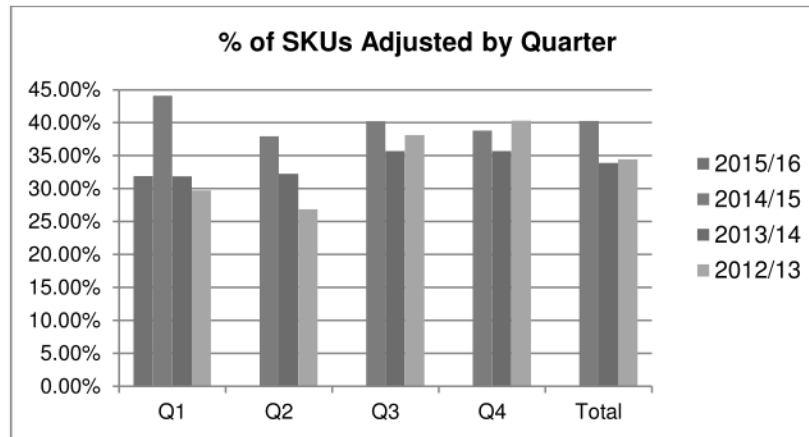
The following graphs provide comparative audit count results by quarter and where possible, results for the four most recent fiscal years, for the following findings:

- total percentage of SKUs adjusted;
- total inventory overage and shortage variances;
- total cash count variances and variance breakdowns into source components; and
- cycle count results.

Following each graph are tables disclosing the detailed quarterly results.

### SKU Variance Summary

The results of the fiscal 2015/16 quarter one BCLS inventory counts show that the average percentage of SKUs requiring adjustment (31.92%) decreased substantially relative to fiscal 2014/15 quarter one average (44.10%) and was comparable with the fiscal 2012/13 and 2013/14 quarter one averages (29.71% and 31.85 respectively).



2015/16 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	21,892	s.17	
Q2	N/A		
Q3	N/A		
Q4	N/A		
Total	21,892	6,987	31.92%

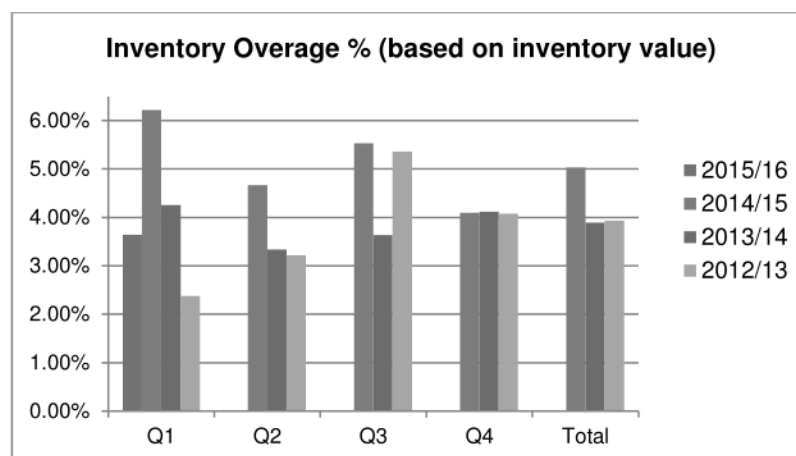
2014/15 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	24,050	s.17	
Q2	23,120		
Q3	28,053		
Q4	25,670		
Total	100,893	40,625	40.27%

2013/14 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	27,271	s.17	
Q2	21,047		
Q3	28,093		
Q4	22,772		
Total	99,183	33,632	33.91%

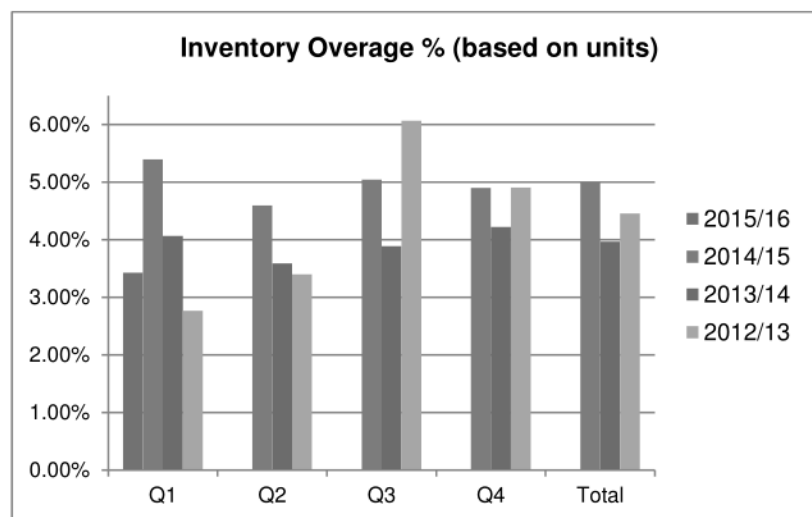
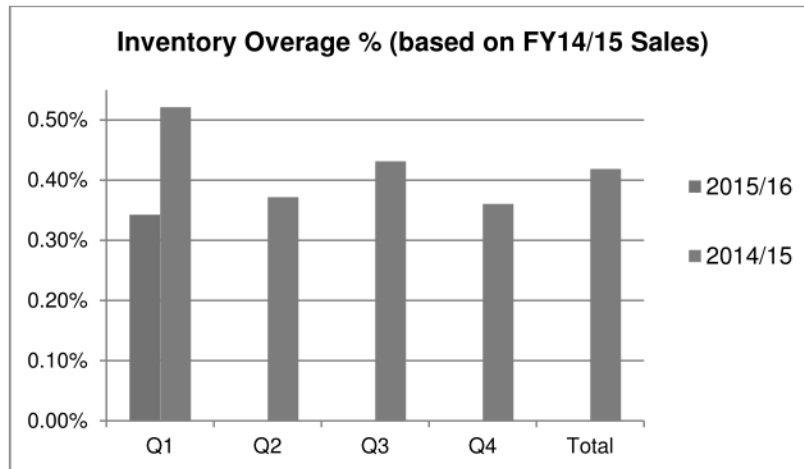
2012/13 SKU Variance Summary			
	Total SKUs	Adjusted	%
Q1	14,064	s.17	
Q2	25,804		
Q3	21,965		
Q4	31,135		
Total	92,968	32,042	34.47%

#### Inventory Overage Variance Summary

The results of the fiscal 2014/15 quarter one BCLS inventory counts show that the inventory overages (in dollars, units and percentages) decreased relative to the fiscal 2013/14 and 2014/15 quarter one averages but increased relative to the fiscal 2012/13 quarter one average.







	2015/16 Inventory Overage Summary								
	Total (Inventory Display \$)	Adjusted (Inventory Display \$)	%	Total (FY14/15 Sales)	Adjusted (Inventory Display \$)	%	Total (Units)	Adjusted (Units)	%
Q1	\$6,945,602	s.17		\$ 73,935,807	s.17		386,322	s.17	
Q2	N/A			N/A			N/A		
Q3	N/A			N/A			N/A		
Q4	N/A			N/A			N/A		
Total	\$6,945,602	\$253,171	3.65%	\$ 73,935,807	\$ 253,171	0.34%	386,322	13,238	3.43%

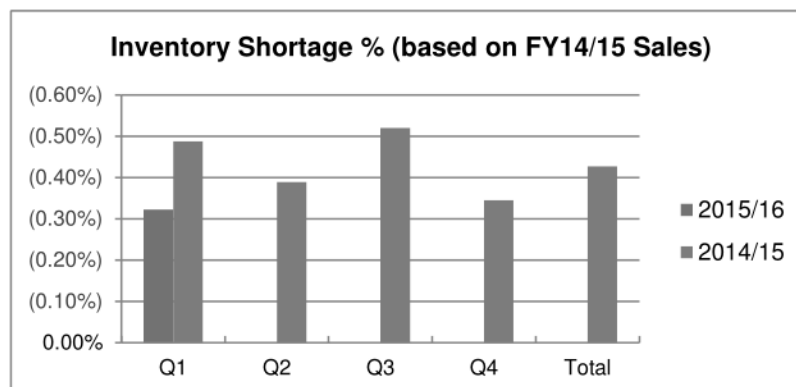
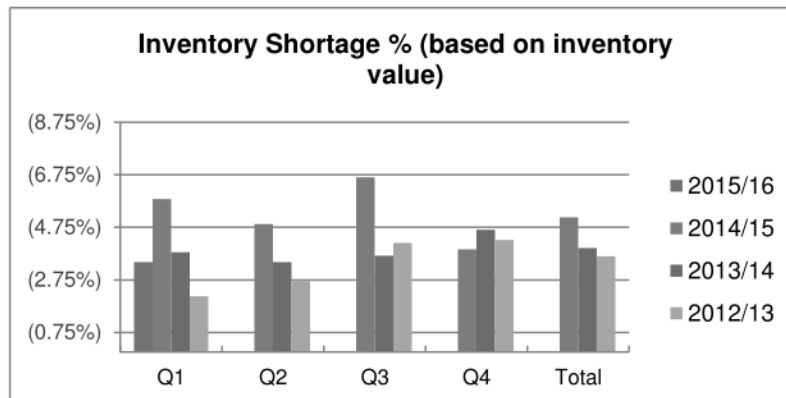
	2014/15 Inventory Overage Summary								
	Total (Inventory Display \$)	Adjusted (Inventory Display \$)	%	Total (FY14/15 Sales)	Adjusted (Inventory Display \$)	%	Total (Units)	Adjusted (Units)	%
Q1	\$10,438,266	s.17		\$ 124,680,715	s.17		465,223	s.17	
Q2	\$7,288,946			\$ 91,476,002			401,629		
Q3	\$8,398,628			\$ 107,593,700			488,428		
Q4	\$14,964,639			\$ 170,141,406			526,252		
Total	\$41,090,479	\$2,066,952	5.03%	\$ 493,891,823	\$ 2,066,952	0.42%	1,881,532	93,920	4.99%

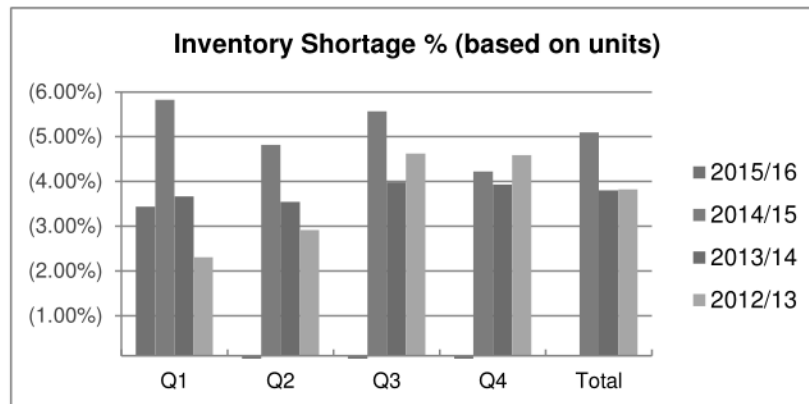
2013 / 2014 Inventory Overage Summary						
	Total (Inventory Display \$)	Adjusted (Inventory Display \$)	%	Total (Units)	Adjusted (Units)	%
Q1	\$10,380,237	s.17		467,219	s.17	
Q2	\$7,453,361			345,443		
Q3	\$9,848,179			509,627		
Q4	\$12,354,867			466,924		
Total	\$40,036,644	\$1,557,700	3.89%	1,789,213	70,914	3.96%

2012 / 2013 Inventory Overage Summary						
	Total (Inventory Display \$)	Adjusted (Inventory Display \$)	%	Total (Units)	Adjusted (Units)	%
Q1	\$4,762,818	s.17		259,625	s.17	
Q2	\$8,400,619			451,815		
Q3	\$7,612,261			384,565		
Q4	\$18,287,465			652,824		
Total	\$39,063,163	\$1,536,816	3.93%	1,748,829	77,864	4.45%

#### Inventory Shortage Variance Summary

The results of the fiscal 2014/15 quarter one BCLS inventory counts show that the inventory shortages (in dollars, units and percentages) decreased relative to the fiscal 2013/14 and 2014/15 quarter one averages but increased relative to the fiscal 2012/13 quarter one average.





	2015 /16 Inventory Shortage Summary											
	Total (Inventory Display \$)		Adjusted (Inventory Display \$)	%	Total (FY14/15 Sales)		Adjusted (Inventory Display \$)	%	Total (Units)		Adjusted (Units)	%
Q1	\$6,945,602		s.17		\$ 73,935,807		s.17		386,322		s.17	
Q2	N/A				N/A				N/A			
Q3	N/A				N/A				N/A			
Q4	N/A				N/A				N/A			
Total	\$6,945,602	(\$238,329)		(3.43%)	\$ 73,935,807	(\$238,329)		(0.32%)	386,322	(13,271)		(3.44%)

	2014 /15 Inventory Shortage Summary											
	Total (Inventory Display \$)		Adjusted (Inventory Display \$)	%	Total (FY14/15 Sales)		Adjusted (Inventory Display \$)	%		Total (Units)	Adjusted (Units)	%
Q1	\$10,438,266	s.17			\$ 124,680,715	s.17				465,223	s.17	
Q2	\$7,288,946				\$ 91,476,002					401,629		
Q3	\$8,398,628				\$ 107,593,700					488,428		
Q4	\$14,964,639				\$ 170,141,406					526,252		
Total	\$41,090,479	(\$2,108,249)	(5.13%)		\$ 493,891,823	(\$2,108,249)	(0.43%)			1,881,532	(95,850)	(5.09%)

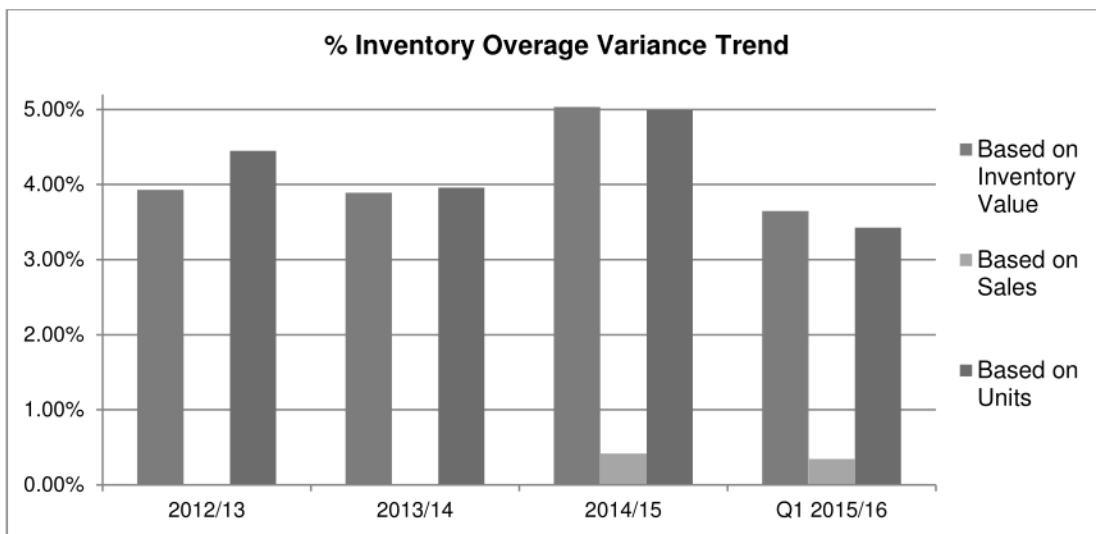
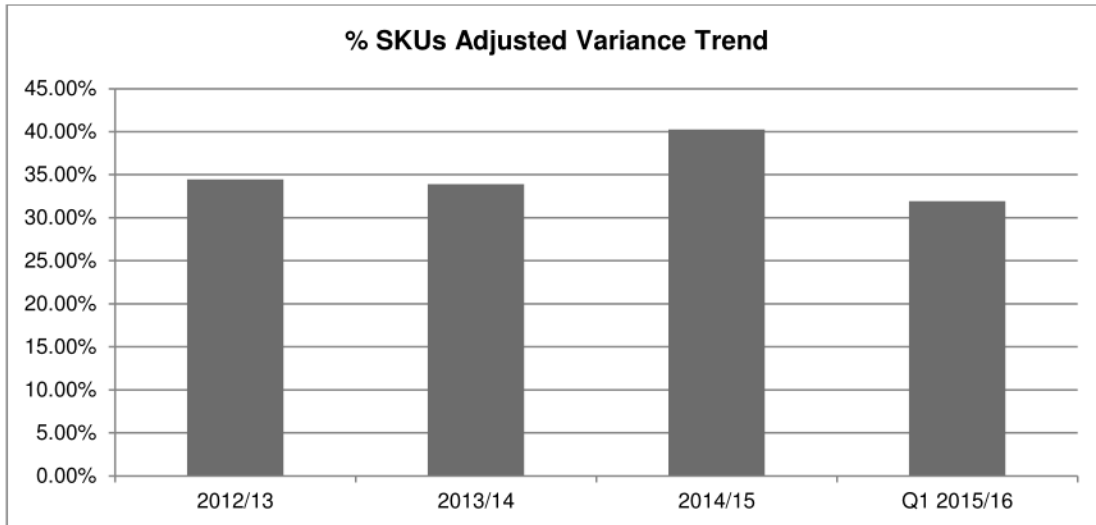
	2013 / 2014 Inventory Shortage Summary					
	Total (Inventory Display \$)	Adjusted (Inventory Display \$)	%	Total (Units)	Adjusted (Units)	%
Q1	\$10,380,237	s.17		467,219	s.17	
Q2	\$7,453,361			345,443		
Q3	\$9,848,179			509,627		
Q4	\$12,354,867			466,924		
Total	\$40,036,644	(\$1,587,351)	(3.96%)	1,789,213	(67,988)	(3.80%)

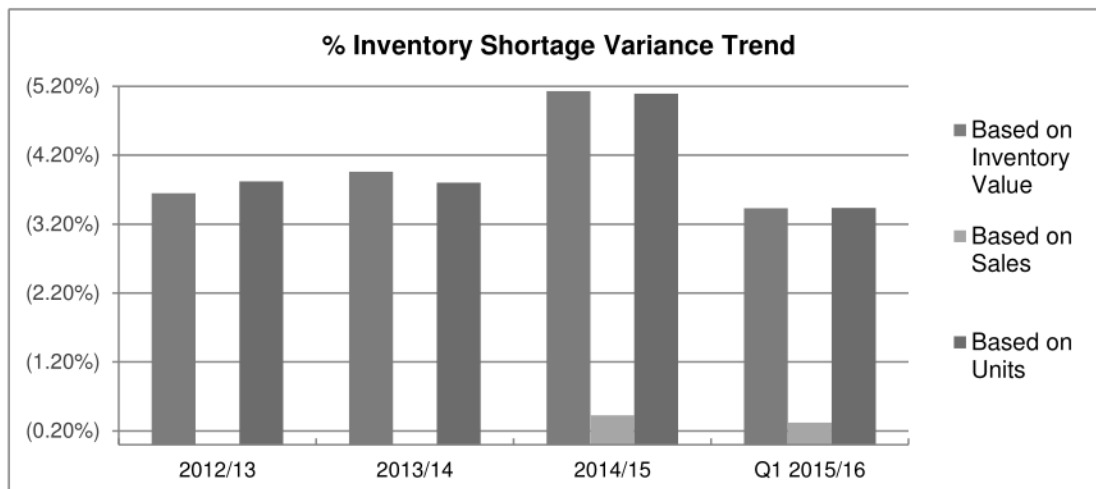
	2012 / 2013 Inventory Shortage Summary					
	Total (Inventory Display \$)	Adjusted (Inventory Display \$)	%	Total (Units)	Adjusted (Units)	%
Q1	\$4,762,818	s.17		259,625	s.17	
Q2	\$8,400,619			451,815		
Q3	\$7,612,261			384,565		
Q4	\$18,287,465			652,824		
Total	\$39,063,163	(\$1,425,745)	(3.65%)	1,748,829	(66,881)	(3.82%)

### Inventory Adjustments Trend Analysis

The results of the fiscal 2014/2015 quarter one BCLS inventory counts show a lower percentage of SKUs as well as inventory overages and shortages requiring adjustment compared to the last three fiscal years (i.e. fiscal year 2012/13, 2013/14 and 2014/15). In particular, the average percentage of SKUs requiring adjustment is approximately 2-8.5% lower compared to the prior year annual averages of approximately 34-40.5%. The average inventory overages and shortages as a percentage of inventory display value and inventory units are approximately 0-1.5% lower compared to the prior year annual averages of approximately 3.5-5%. Lastly, the average inventory overages and shortages as a percentage of sales has decreased approximately 0.1% relative to the fiscal 2014/15 average of approximately 0.4%.

A recap of the fiscal 2015/16 and prior fiscal year results are as follows:

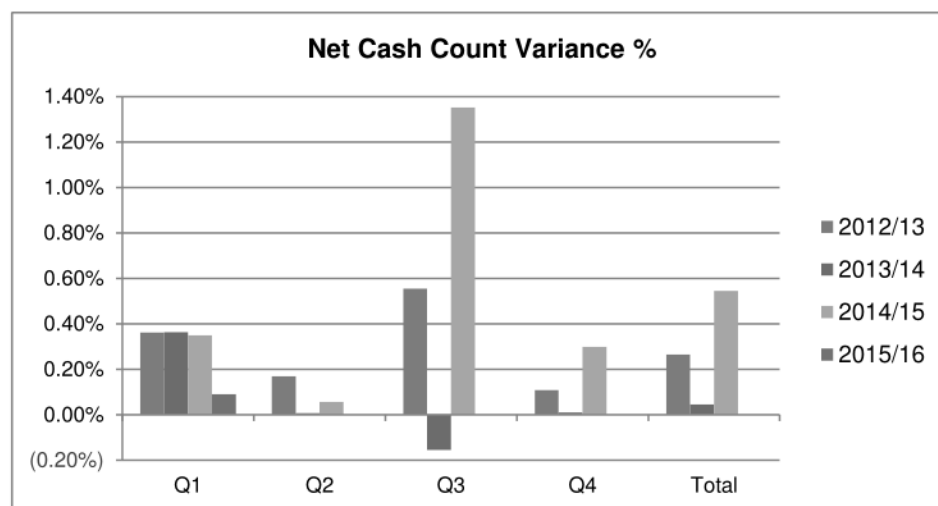




	SKUs Adjusted Variance Trend		Inventory Overage Variance Trend					Inventory Shortage Variance Trend				
	#	%	Adjusted (Inventory Display \$)	% of Display Value	% of Sales	Adjusted (Units)	% of Units	Adjusted (Inventory Display \$)	% of Display Value	% of Sales	Adjusted (Units)	% of Units
<b>Q1 2015/16</b>	6,987	31.92%	\$253,171	3.65%	0.34%	13,238	3.43%	(\$238,329)	(3.43%)	(0.32%)	(13,271)	(3.44%)
<b>2014/15</b>	40,625	40.27%	\$2,066,952	5.03%	0.42%	93,920	4.99%	(\$2,108,249)	(5.13%)	(0.43%)	(95,850)	(5.09%)
<b>2013/14</b>	33,632	33.91%	\$1,557,699	3.89%	N/A	70,914	3.96%	(\$1,587,351)	(3.96%)	N/A	(67,988)	(3.80%)
<b>2012/13</b>	32,042	34.47%	\$1,536,816	3.93%	N/A	77,864	4.45%	(\$1,425,745)	(3.65%)	N/A	(66,881)	(3.82%)

### Cash Count Variance Summary

The results of the fiscal 2015/16 quarter one BCLS cash counts show that the average net cash variance (0.09%) decreased relative to the previous three fiscal year quarter one averages (0.35-0.36%). Also, the breakdown of the 2015/16 quarter one net cash variance into its source components show an increasing amount found in Imprest relative to the previous fiscal quarter (14% versus 0% in fiscal 2014/15 quarter four).



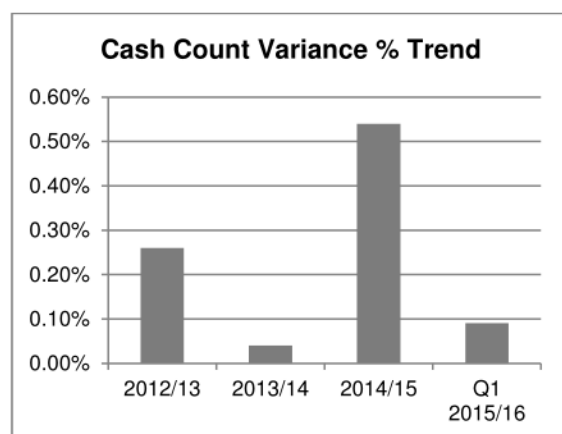
	2015/16 Cash Count Variance Summary					2014/15 Cash Count Variance Summary				
	Total Approved Per GL (\$)	Net Variance	% Net Variance	% Found in Litter	% Found in Imprest	Total Approved Per GL (\$)	Net Variance	% Net Variance	% Found in Litter	% Found in Imprest
Q1	\$208,811	s.17				\$236,536	s.17			
Q2	N/A					\$213,376				
Q3	N/A					\$278,433				
Q4	N/A					\$300,554				
Total	\$208,811	\$189	0.09%	86%	14%	\$1,028,899	\$5,606	0.54%	98%	2%

	2013/14 Cash Count Variance Summary					2012/13 Cash Count Variance Summary				
	Total Approved Per GL (\$)	Net Variance	% Net Variance	% Found in Litter	% Found in Imprest	Total Approved Per GL (\$)	Net Variance	% Net Variance	% Found in Litter	% Found in Imprest
Q1	\$275,640	s.17				\$152,500	s.17			
Q2	\$188,014					\$316,177				
Q3	\$358,047					\$248,650				
Q4	\$263,869					\$365,822				
Total	\$1,085,570	\$484	0.04%	N/A	N/A	\$1,083,149	\$2,861	0.26%	N/A	N/A

### Cash Variances Trend Analysis

The results of the fiscal 2014/2015 quarter one BCLS cash counts show a lower percentage cash variance as compared fiscal 2012/13 and 2014/15 but a slightly higher percentage variance when compared to fiscal 2013/14. All annual cash variances have been insignificant at less than 1%, with the fiscal 2015/16 cash variance being 0.09% and the three prior years being between approximately 0.04% and 0.54%. Furthermore, when compared to fiscal 2014/15, the year-to-date fiscal 2015/16 variance had a higher percentage located in Imprest (14% versus 2%).

A recap of the fiscal 2015/16 and prior fiscal year results are as follows:

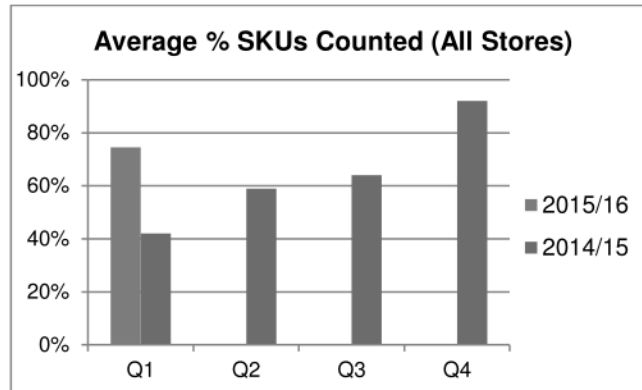


	Cash Variance Trend	
	(\$)	(%)
Q1 2015/16	189	0.09%
2014/15	5,606	0.54%
2013/14	484	0.04%
2012/13	2,861	0.26%

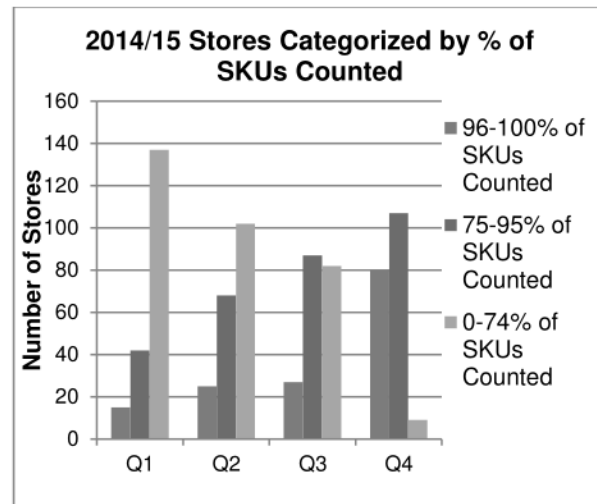
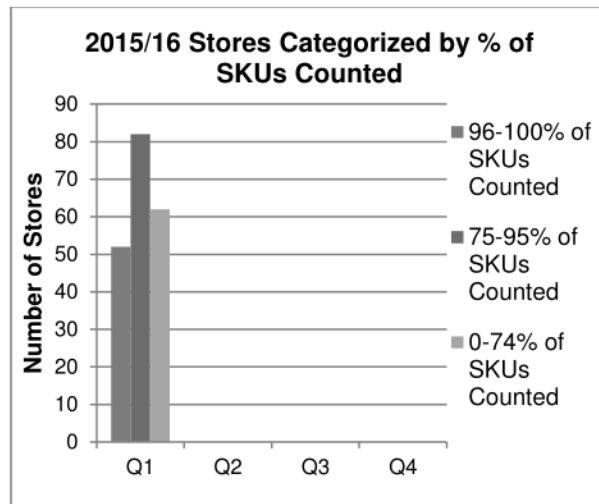
	Cash Over/Short Breakdown	
	% Found in Litter	% Found in Imprest
Q1 2015/16	s.17	
2014/15		
2013/14		
2012/13		

## Cycle Count Monitoring Summary

The results of the fiscal 2015/16 quarter one BCLS cycle counts show that the average percentage of SKUs counted by all BCLS (74%) increased relative to fiscal 2014/15 quarter one (42%). Also, the number of stores counting the expected amount of 100% of their SKUs each quarter increased relative to fiscal 2014/15 quarter one (52 BCLS [includes 9 Internal Audit counts] versus 15 [includes 8 Internal Audit counts]).



Average %SKUS Counted (All Stores)		
	2015/16	2014/15
Q1	s.17	
Q2		
Q3		
Q4		



2015/16 % Counted Categories					
Stores Counting 96-100% of SKUs		Stores Counting 75-95% of SKUs		Stores Counting 0-74% of SKUs	
%	#	%	#	%	#
Q1	s.17				
Q2					
Q3					
Q4					

Note: nine of the 52 quarter one stores that show as counting 96-100% of SKUs are a result of the inventory and cash counts performed by Internal Audit.

2014/15 % Counted Categories					
Stores Counting 96-100% of SKUs		Stores Counting 75-95% of SKUs		Stores Counting 0-74% of SKUs	
%	#	%	#	%	#
<b>Q1</b>	s.17				
<b>Q2</b>					
<b>Q3</b>					
<b>Q4</b>					

*Note: eight of the 15 quarter one stores that show as counting 96-100% of SKUs are a result of the inventory and cash counts performed by Internal Audit. The same concept applies to 10 of the 25 quarter two stores, 12 of the 27 quarter three stores, and nine of the 87 quarter four stores.*





# LIQUOR DISTRIBUTION BRANCH

## INTERNAL AUDIT REPORT (DRAFT)

**Report Date:** July 21, 2015  
**Store Number:** s.17  
**Store Name:**  
**Store Type:**  
**Store Manager:**  
**Regional Manager:**  
**Internal Auditor:**  
**Distribution Lists:**

### Store Statistics (Current Year):

**Sales:** s.17 (P01 & P02)  
**Staff Count (Full Time):** 4  
**Staff Count (Part Time):** 4 auxillaries  
**Shrink:** (5,779.70) (P01 & P02)  
**Competition:** none

## AUDIT REPORT OVERVIEW

**Overall Score: 73.8%**

### **Overview (Draft):**

The objective of the store audit was to assess the effectiveness of store level controls, and to provide recommendations for improvement in store operation and profitability. The framework for assessment used is the Internal Control Matrix, which was developed based on store level processes and policies.

Risk ratings indicated for particular issues are pre-determined in context of retail practice and the British Columbia Liquor Distribution Branch policies. Risk ratings for each issue are the same across stores; yet the magnitude of any particular issue may differ.

Audit results by process and control counts along with and Issue Summary is provided on page 2.

A recommended action plan is developed to improve effectiveness of internal controls at store level. Audit issues, relevant risks, risks ratings and recommendations are presented in the report. Risk rating serves as a tool to assist Store Managers and Regional Managers in implementing the action plan based on recommendations provided and to provide a benchmark against which store performances can be compared.

During the audit, the Store Managers and team were involved in the process of reviewing, discussing and responding to issues found. The Internal Audit Department appreciates the co-operation of the Store Managers and their teams for their assistance with the audit process.

Store Manager Comments:

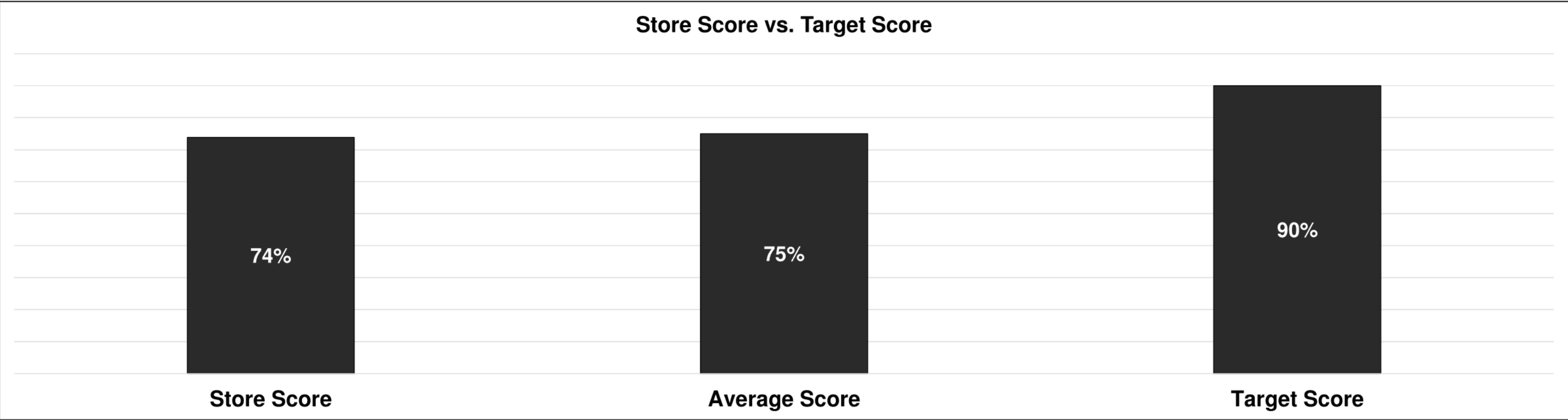
(Store Managers may provide overall comments in addition to detailed comments)

s.13,s.17

Regional Manager Comments:

s.13,s.17

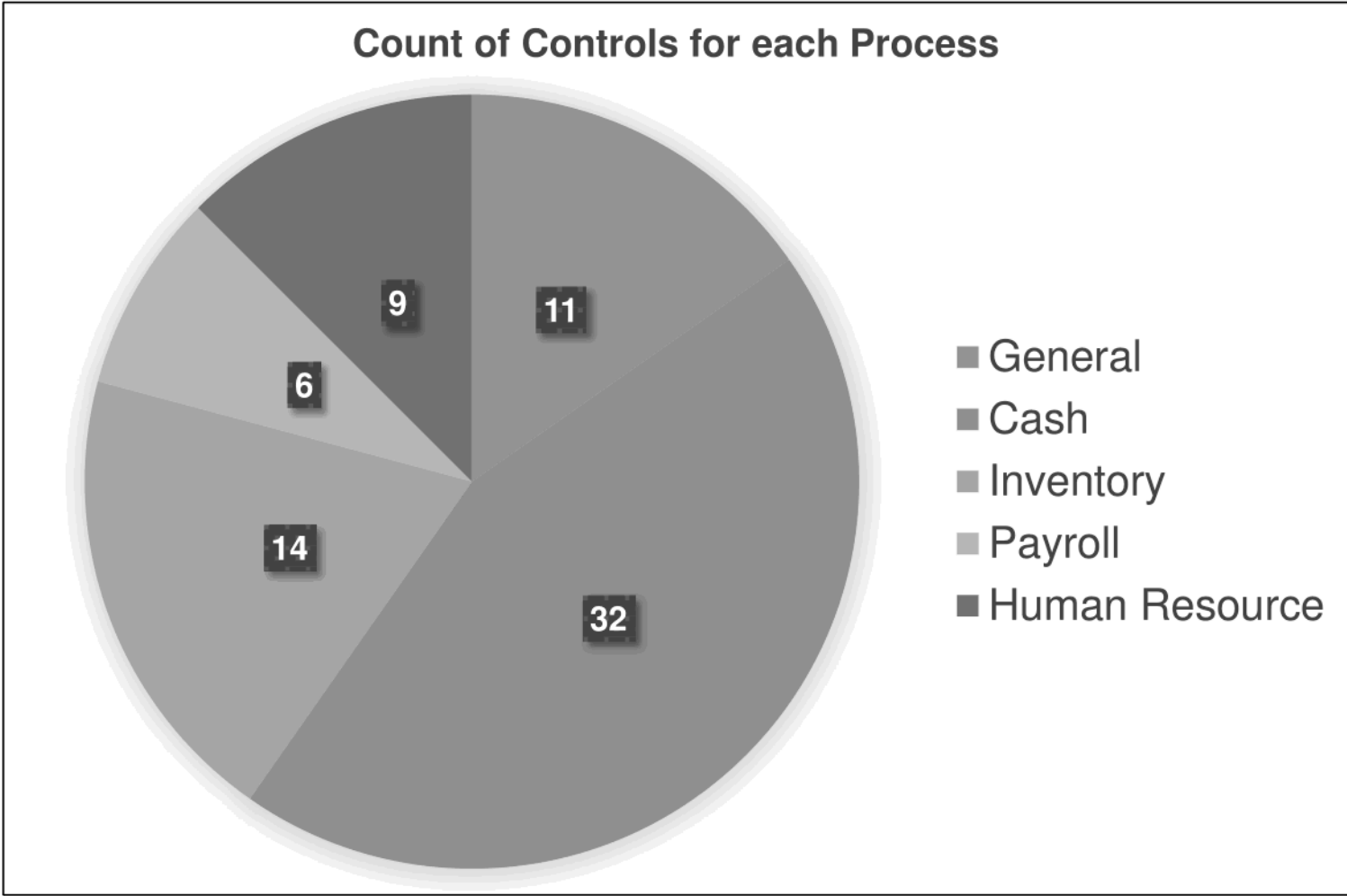
AUDIT RESULTS BY STORE PROCESS



Audit Score by Process

Section Number	Store Process	Score (%)
A	General	60.9%
B	Cash	76.5%
C	Inventory	82.1%
D	Payroll	81.8%
E	Human Resource	63.2%
Store Score		73.8%

<b>Note:</b>	
Green (Over 75%)	Controls Operating Effectively
Yellow (50%-74%)	Improvement Areas Noted
Red (Below 50%)	Action Required



## ISSUES SUMMARY

Store Process	Issue Reference	Risk Rating	Issue
A. GENERAL	A1.	s.17	
A. GENERAL	A2.		
A. GENERAL	A3.		
A. GENERAL	A4.		
A. GENERAL	A5.		
A. GENERAL	A6.		
B. CASH	B1.		
B. CASH	B2.		
B. CASH	B3.		
B. CASH	B4.		
B. CASH	B5.		
B. CASH	B6.		
B. CASH	B7.		
B. CASH	B8.		
B. CASH	B9.		
C. INVENTORY	C1.		
C. INVENTORY	C2.		
C. INVENTORY	C3.		
D. PAYROLL	D1.		
E. HUMAN RESOURCE	E1.		
E. HUMAN RESOURCE	E2.		
E. HUMAN RESOURCE	E3.		

# DISCUSSION OF AUDIT ISSUES

## A. GENERAL

<b>A1.</b>	<b>Store Security</b>	
<b>Control Matrix #</b>	<b>2</b>	<b>Risk Rating - Low</b>
<b>Issue:</b>	s.13,s.15	
<b>Audit Findings:</b>		
<b>Risk:</b>		
<b>Recommendation:</b>		
<b>Store Manager Comments:</b>		
<b>Internal Audit Remark:</b>		

<b>A2.</b>	<b>Store Security</b>	
<b>Control Matrix #</b>	<b>3</b>	<b>Risk Rating - High</b>
<b>Issue:</b>	s.13,s.15	
<b>Audit Findings:</b>		
<b>Risk:</b>		
<b>Recommendation:</b>		
<b>Store Manager Comments:</b>		
<b>Internal Audit Remark:</b>		

<b>A3.</b>	<b>Store Security</b>		<b>(Observation only. No points deducted)</b>
<b>Control Matrix #</b>	<b>5</b>	<b>Risk Rating - Low</b>	
<b>Issue:</b>	s.13,s.15		
<b>Audit Findings:</b>			
<b>Risk:</b>			
<b>Recommendation:</b>			
<b>Store Manager Comments:</b>			
<b>Internal Audit Remark:</b>			

<b>A4.</b>	<b>Store Security</b>	
<b>Control Matrix #</b>	<b>7</b>	<b>Risk Rating - High</b>
<b>Issue:</b>	s.13,s.15	
<b>Audit Findings:</b>		
<b>Risk:</b>		
<b>Recommendation:</b>		
<b>Store Manager Comments:</b>		

Internal Audit Remark:	s.13
------------------------	------

A5. Store Security

Control Matrix #	8	Risk Rating -	Medium
Issue:	s.13,s.15		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

A6. ID Check (Observation only. No points deducted)

Control Matrix #	9	Risk Rating -	High
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

B. CASH

B1. Cash Handling (Observation only. No points deducted)

Control Matrix #	13	Risk Rating -	Low
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

B2. Cash Handling

Control Matrix #	14	Risk Rating -	Low
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

B3. Cash Handling

Control Matrix #	15	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			

Store Manager Comments:	s.13
Internal Audit Remark:	

B4. Cash Handling

Control Matrix #	16	Risk Rating -	High
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

B5. Cashier Tills

Control Matrix #	25	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

B6. Cashier Tills

Control Matrix #	33	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

B7. Daily Close

Control Matrix #	36	Risk Rating -	High
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

B8. Imprest Bank Account (Observation only. No points deducted)

Control Matrix #	40	Risk Rating -	Low
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			

Store Manager Comments:	s.13
Internal Audit Remark:	

B9. Litter

Control Matrix #	41	Risk Rating -	High
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

C. INVENTORY

C1. Ordering

Control Matrix #	44	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

C2. Shipping

Control Matrix #	49	Risk Rating -	Low
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

C3. Storage

Control Matrix #	52	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

D. PAYROLL

D1. Time Entry & Approval

Control Matrix #	59	Risk Rating -	Medium
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Issue:	s.13
Audit Findings:	
Risk:	
Recommendation:	
Store Manager Comments:	
Internal Audit Remark:	

E. HUMAN RESOURCE

E1.	Hiring		
Control Matrix #	65	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

E2.	Hiring		
Control Matrix #	69	Risk Rating -	Medium
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			

E3.	Privacy		
Control Matrix #	70	Risk Rating -	High
Issue:	s.13		
Audit Findings:			
Risk:			
Recommendation:			
Store Manager Comments:			
Internal Audit Remark:			